Supreme Court, U.S.
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No. 04-1329

IN THE

Supreme Court of the United States

ILLINOIS TOOL WORKS INC. AND TRIDENT, INC.,
Petitioners,

v.

INDEPENDENT INK, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether, in an action under Section 1 of the Sherman Act, 15 U.S.C. § 1, alleging that the defendant engaged in unlawful tying by conditioning a patent license on the licensee's purchase of a non-patented good, the plaintiff must prove as part of its affirmative case that the defendant possessed market power in the relevant market for the tying product, or market power instead is presumed based solely on the existence of the patent on the tying product.

RULE 29.6 STATEMENT AND PARTIES TO THE PROCEEDING

Pursuant to this Court's Rule 29.6, petitioners state that Trident, Inc. was acquired by Illinois Tool Works Inc. on February 17, 1999. Thereafter, Trident, Inc. became a division of ITW, and is no longer a separate corporate entity. Illinois Tool Works Inc. is a publicly held corporation.

The parties to the proceeding in the court of appeals were Illinois Tool Works Inc., Trident, Inc., and Independent Ink, Inc.

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PETITION FOR A WRIT OF CERTIORARI

Illinois Tool Works Inc. ("ITW") and Trident, Inc. ("Trident") respectfully petition the Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-19a) is reported at 396 F.3d 1342. The order of the district court granting petitioners' motion for summary judgment on the antitrust claims (App., *infra*, 20a-56a) is reported at 210 F. Supp. 2d 1155. The order of the district court entering final judgment (App., *infra*, 57a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on January 25, 2005. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 1 of the Sherman Act (15 U.S.C. § 1) provides in pertinent part: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce * * * is declared to be illegal."

STATEMENT

A plaintiff alleging that a defendant has engaged in tying in violation of Section 1 of the Sherman Act (15 U.S.C. § 1) must prove that the defendant exercised "'appreciable economic power' in the tying product market." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 462 (1992) (citation omitted). In *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." 371 U.S. at 45-46 (citing *International Salt Co.*

v. United States, 332 U.S. 392 (1947), and *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948)).

The question presented in this case is whether the Court should reconsider, and overturn, the presumption announced in *Loew's*. The market power presumption is sharply inconsistent with the economic reasoning underlying the Court's contemporary tying decisions. The federal antitrust enforcement agencies and the overwhelming weight of scholarly opinion have repudiated *Loew's* and *International Salt*.

Indeed, the court below recognized that the presumption "has been subject to heavy criticism," including by Members of this Court, but concluded that "[e]ven where a Supreme Court precedent contains many 'infirmities' and rests upon 'wobbly, moth-eaten foundations,' it remains the 'Court's prerogative alone to overrule one of its own precedents.'" App., *infra*, 13a-14a (citing *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997)). The Court should grant review to address this important issue that it alone among the federal courts has the power to resolve.

A. Trident's Business

ITW's Trident division designs, manufactures and markets printing systems made up of industrial piezoelectric impulse ink jet printheads and inks. It sells the systems to original equipment manufacturers ("OEMs") that incorporate them into printers for industrial applications — for example, bar coding and other carton labeling. Those printers, in turn, form a small part of the packaging assembly lines that the OEMs sell to their customers.

Trident is the exclusive licensee under a portfolio of patents covering piezoelectric printing technology. Even so, Trident competes with at least two other firms, Markem and Xaar, that also have developed their own printhead systems capable of printing barcodes on packaging material. App., *infra*, 22a. In addition, all three manufacturers face competi-

tion from the older but still viable method of attaching barcodes to packages with pre-printed labels. *Ibid.*

Trident holds the patent involved in this litigation, U.S. Patent No. 5,343,226 ("the '226 patent"), and other related patents and patent applications, on the connection between the printhead and the bottle containing the printer ink. Trident licenses its OEM customers under the '226 patent and its other related patents to "'manufacture, use and sell equipment employing and including ink jet printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident.'" *Id.* at 21a. Pursuant to this license requirement, the OEM customers buy the Trident inks, in patented single-use containers, along with the printheads for which they were designed and incorporate them into the units they sell to their end-user customers. The end-users buy ink refills from the OEMs, subject to a single-use license under the '226 patent. The single-use license prohibits refilling the containers. *Ibid.*

However, the licenses to the OEMs do not bind end-users, and neither the '226 patent nor the single-use license has prevented end-users from obtaining ink and containers from third-party manufacturers. Several firms have sought to capitalize on Trident's investments in innovation, either by selling ink in their own containers, despite the '226 patent, or by refilling the end-users' Trident containers, despite the single-use license. See *id.* at 21a-22a. One such firm is respondent Independent Ink, Inc. ("Independent"). *Id.* at 21a.

B. The District Court Decision

On December 31, 1997, Trident filed an infringement action against Independent in the United States District Court for the Southern District of Illinois based upon Independent's refilling of Trident's patented single-use ink containers with its own ink. The suit, which Trident brought against four defendants in all, was dismissed as to Independent and one other defendant for lack of personal jurisdiction. See *Trident,*

Inc. v. Applied Techs. Group, Inc., No. 3:97-cv-01047-GPM (S.D. Ill. Dec. 15, 1998).

Independent concurrently commenced this action against Trident in the United States District Court for the Central District of California, seeking a declaratory judgment of non-infringement and invalidity. Independent later added several other claims, including federal and state antitrust law claims.[1] In its Fourth Amended Complaint, Independent's federal antitrust claim alleged "monopolization, conspiracy to restrain trade, conspiracy to monopolize and attempted monopolization," evidently in violation of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 & 2), based on, among other alleged conduct, the tying of the patented printheads and the ink.[2] Trident and ITW (which had been added as a defendant after it purchased Trident) moved for summary judgment on both the federal and state antitrust claims; Independent moved for summary judgment only as to its Section 1 theory.

Independent contended that Trident and ITW "necessarily ha[d] market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system." App., *infra*, at 23a. At the same time, though, Independent acknowledged that "'the mere fact of having a patent does not create market power vis-à-vis the products with which the patented product competes.'" *Ibid.* (quoting Plaintiff's Reply Brief at 4). Independent's summary judgment briefs did not resolve this fundamental incongruity: they "d[id] not discuss the products at issue, their substitutes, or

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[1] Independent's non-antitrust claims were state law claims for unfair competition, fraud, and negligent and intentional interference with prospective business advantage. The district court's jurisdiction was based on 28 U.S.C. § 1332(a)(1), 28 U.S.C. § 1337(a), and 28 U.S.C. § 1338(a).

[2] Independent also included a claim under California state antitrust law. See App., *infra*, 38a n.13.

the relevant markets." *Id.* at 24a. Indeed, Independent itself stated that its expert "'did not perform an antitrust analysis at all.'" *Ibid.* (quoting Plaintiff's Response to Defendants' Statement of Uncontroverted Facts at ¶ 10).

The district court denied Independent's summary judgment motion, and granted summary judgment for Trident on both claims. App., *infra*, at 38a, 49a. The court found that Independent had "proffer[ed] no evidence that would establish Defendants' market power in the as yet undefined market for the tying product." *Id.* at 49a.

The district court rejected Independent's contention that Trident's market power was presumed by virtue of its patent. "The weight of authority," the court observed, "is to the contrary," citing recent cases that did not apply the *International Salt-Loew's* presumption and noting the statement of the Department of Justice and Federal Trade Commission that, in analyzing patent-based tying, they "'will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner.'" *Id.* at 30a-33a (quoting United States Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, § 5.3 (1995) (other citations omitted)).

The district court distinguished *International Salt* and *Loew's*, finding that "[t]he Court's language [in those cases] concerning presumptions of market power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required"; in contrast, the court reasoned, "in [*Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2 (1984)], the Court began demanding real proof of such market power." App., *infra*, 34a-35a n.10 (citing 10 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 1737a (1996)). Concluding that Independent had produced "no evidence from which a reasonable trier of fact could define the relevant product and geographic markets," and had failed to "proffer any evidence that Defendants possess market power

by virtue of their market share or that the market for the tying product contains barriers to entry," the court entered summary judgment for ITW and Trident on the Section 1 theory. App., *infra*, 49a.[3]

The district court also granted summary judgment for ITW and Trident on Independent's Section 2 theory. The court found that Independent's "proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by [Independent's] vice president in a few hours." *Id.* at 50a-51a. In fact, the court's review of the record revealed "numerous actual and potential suppliers of ink for Trident's system." *Id.* at 52a. Similarly, Independent had "fail[ed] to proffer evidence or analysis concerning the relevant geographic market." *Ibid.* Without evidence to support relevant product and geographic markets, Independent could not establish either that petitioners possessed monopoly power in a relevant market, or that there existed a dangerous probability of achieving such monopoly power. *Id.* at 53a, 56a. Finally, the court held that Independent had failed to "proffer any evidence of a conspiracy to monopolize any defined market." *Id.* at 56a. Accordingly, Independent's theories of monopolization, attempted monopolization and conspiracy to monopolize all failed.

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[3] Because the state law antitrust claim was "predicated upon the same facts" as the Sherman Act claim, and Independent did "not address [the state law] claims independently," the district court disposed of that state law claim together with the Sherman Act theories. App., *infra*, at 38a n.13. The court of appeals did not address the state law antitrust claim.

The parties subsequently settled the non-antitrust claims, and the district court entered final judgment for petitioners on the antitrust claims. App., *infra*, 57a.

C. The Federal Circuit's Decision

The court of appeals reversed the summary judgment in favor of Trident and ITW on the Section 1 theory. Relying on *International Salt* and *Loew's*, the Federal Circuit held that "patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed." App., *infra*, at 9a. The court of appeals refused petitioners' invitation to hold that *International Salt* and *Loew's* are no longer good law. The court recognized that the two cases have "been subject to heavy criticism" (*id.* at 13a) and that [t]he time may have come to abandon the doctrine" (*id.* at 14a) but deferred to their "continued validity * * * as binding authority" (*id.* at 9a), noting that "it remains the '[Supreme] Court's prerogative alone to overrule one of its precedents'" (*id.* at 14a (quoting *State Oil Co.*, 522 U.S. at 20)).

The court of appeals went on to hold that "a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market." App., *infra*, 15a. Determining that petitioners' evidence of competition from the two rival printhead systems and barcode labeling had not overcome the market power presumption, the court reversed summary judgment for petitioners on Independent's Section 1 theory and remanded the case "to permit [petitioners] an opportunity to supplement the summary judgment record with evidence that may rebut the presumption." *Id.* at 17a.

With respect to the Section 2 theory, however, the court of appeals affirmed the district court's grant of summary judgment for ITW and Trident. "In section 2 cases," the court stated, "the plaintiff bears the burden of defining the market and proving defendant's power in that market." *Id.* at 18a. It upheld the district court's determination that "plaintiff makes

only the conclusory allegation of a geographic market without supporting economic evidence" and held that "[s]uch conclusory statements are not sufficient to define a relevant market." *Ibid.* Because Independent failed to carry its burden, the district court properly granted summary judgment for petitioners.

REASONS FOR GRANTING THE PETITION

This Court approaches reconsideration of its decisions "with the utmost caution." *State Oil Co.*, 522 U.S. at 20. In the antitrust context, however, the Court has explained that "there is a competing interest [to *stare decisis*], well represented in th[e] Court's decisions, in recognizing and adapting to changed circumstances and the lessons of accumulated experience. * * * Accordingly, th[e] Court has reconsidered its decisions construing the Sherman Act when the theoretical underpinnings of those decisions are called into serious question." *Id.* at 20, 21 (overruling *Albrecht v. Herald Co.*, 390 U.S. 145 (1968)); see also *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984) (overruling *Kiefer-Stewart Co. v. Joseph E. Seagram & Sons, Inc.*, 340 U.S. 211 (1951)); *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977) (overruling *United States v. Arnold, Schwinn & Co.*, 388 U.S. 367 (1967)).

Reconsideration of this Court's decisions in *Loew's* and *International Salt* is warranted — indeed, necessary — because the very circumstances that the Court cited as the reasons for reconsidering these other antitrust precedents are present here as well. The market power presumption was transplanted into antitrust law from a line of patent cases on the basis of scant analysis; it is wholly inconsistent with the Court's modern antitrust jurisprudence; it has been rejected by the federal antitrust enforcement agencies; and it is the subject of unusually unanimous scholarly criticism.

These flaws in *International Salt* and *Loew's* have been recognized by Members of this Court. See *Jefferson Parish*,

466 U.S. at 37-38 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment); see also *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908 (1985) (White, J., joined by Blackmun, J.).

Review also is warranted to resolve the disarray among the lower courts with respect to this frequently recurring issue. The foundation on which the presumption rests has been eroded so deeply by this Court's modern antitrust jurisprudence that there is a square conflict among the courts of appeals with respect to the continuing vitality of *International Salt* and *Loew's*. In addition, numerous district courts have declined to follow those decisions.

Finally, the presumption imposes real costs on our economy. It encourages the filing of meritless lawsuits by plaintiffs hoping that the presumption will enable their claims to survive motions to dismiss and for summary judgment and, therefore, exact settlement payments from defendants facing the expense, and treble damages risk, of an antitrust trial. These burdens, in turn, may dissuade firms from investing in the development of intellectual property in the first place, thereby causing substantial harm to our economy in view of the increasingly important role of intellectual property as a driver of economic growth. This Court should intervene to eliminate this unjustified burden on intellectual property creation.

I. THE COURT SHOULD RECONSIDER *INTERNATIONAL SALT* AND *LOEW'S*.

"A tying arrangement is an 'agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.'" *Eastman Kodak Co.*, 504 U.S. at 461 (quoting *Northern Pac. Ry. Co. v. United States*, 356 U.S. 1, 5-6 (1958)). Tying arrangements violate Section 1 of the Sherman Act (15 U.S.C.

§ 1) "if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market.'" *Eastman Kodak Co.*, 504 U.S. at 462 (citation omitted).

The Court has explained that "the essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms." *Jefferson Parish*, 466 U.S. at 12. "Accordingly, [the Court has] condemned tying arrangements when the seller has some special ability — usually called 'market power' — to force a purchaser to do something that he would not do in a competitive market. When 'forcing' occurs, [the Court's] cases have found the tying arrangement to be unlawful." *Id.* at 13-14 (footnote and citations omitted).

In *Loew's*, the Court stated that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." 371 U.S. at 45-46 (1962) (citing *International Salt* and *Paramount Pictures*). Although the Court has not applied that principle in the more than forty-two years since *Loew's* was decided, it has repeated it several times in dicta.

This presumption simply makes no sense in the context of the Court's present-day tying jurisprudence. "Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. * * * In determining the existence of market power * * * this Court has examined closely the economic reality of the market at issue." *Eastman Kodak Co.*, 504 U.S. at 466-467 (footnote omitted). The presumption at issue here is the very embodiment of formalism over economic substance.

The bizarre results that flow from the presumption are well illustrated by this case. The court of appeals upheld summary judgment in petitioners' favor on the Section 2 theory because Independent made only conclusory allegations with respect to geographic market. App., *infra*, 18a. But the court of appeals rejected the district court's determination that the very same flaws doomed the Section 1 theory, holding that the presumption allowed that theory to survive summary judgment. *Id.* at 17a. The plaintiff was allowed to rely on the presumption to establish what it clearly could not prove — that Trident possessed market power in a relevant market.

Because this Court is the only court that can resolve the question regarding the appropriate legal rule, the Court should grant review to reconsider *International Salt* and *Loew's*.

A. The Market Power Presumption Was Not The Product Of "In-Depth" Antitrust Analysis By This Court.

In *Copperweld*, the Court explained that one reason for reconsidering the intra-enterprise conspiracy doctrine was that the Court had never before considered "the merits of the * * * doctrine in depth"; the doctrine had arisen "from a far narrower rule"; and, although the Court had "expressed approval of the doctrine on a number of occasions," that statement "was in all but perhaps one instance unnecessary to the result." 467 U.S. at 760. The presumption at issue here has a similarly undistinguished pedigree.

Most importantly, the presumption is not the product of a determination by this Court that the licensor of a patented or copyrighted product always, or nearly always, possesses market power as that term is generally understood in antitrust analysis — "the potential for genuine adverse effects on competition." *FTC v. Indiana Fed'n of Dentists*, 476 U.S. 447, 460 (1986).

In *International Salt*, for example, the defendant refused to lease its salt-dispensing machines unless the lessee also

agreed to purchase from the defendant the salt used in the machines. The Court found an unlawful tie without conducting any market power analysis, subsequently explaining that "the defendant in *International Salt* offered to prove that competitive salt machines were readily available which were satisfactory substitutes for its machines (a fact the Government did not controvert), but the Court regarded such proof as irrelevant." *Northern Pac. Ry. Co.*, 356 U.S. at 10 n.8; see also *Standard Oil Co. of Cal. v. United States*, 337 U.S. 293, 305 (1949) ("[i]t was not established that equivalent machines were unobtainable, it was not indicated what proportion of the business of supplying such machines was controlled by defendant, and it was deemed irrelevant that there was no evidence as to the actual effect of the tying clauses upon competition").

The roots of the presumption lie in judicial concern about a patent owner's ability to assert rights in excess of those conveyed by the patent itself. As the *Loew's* Court explained, the principle "grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent. These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products." 371 U.S. at 46 (citations omitted).

The Court then set forth its rationale for extending these cases into the antitrust context:

> Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences.

371 U.S. at 46; see also *Paramount Pictures*, 334 U.S. at 158 (block licensing of motion pictures is unlawful under the antitrust laws because it "add[s] to the monopoly of the copyright in violation of the principle of the patent cases involving tying clauses") (footnote omitted).

Thus, the market power presumption does not reflect a determination about the relationship between intellectual property rights and market power. Rather, it is the product of a judicial judgment about the appropriate limits on intellectual property rights, imported into antitrust law based on the questionable "theory" that the "uniqueness" that patents are meant to reward equates to "distinctiveness sufficient to" create market power. *Loew's*, 371 U.S. at 46; see also *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., concurring in the judgment) (explaining that in *Paramount Pictures* "the Court did not analyze the arrangement with the schema of tying cases" but rather "borrowed the patent law principle of 'patent misuse'").

Although the Court has repeated the *Loew's* formulation of the presumption in several subsequent opinions addressing tying claims, none of those cases turned on application of the presumption because they did not involve a tying product that was patented or copyrighted. See *Jefferson Parish*, 466 U.S. at 16; *United States Steel Corp. v. Fortner Enters., Inc.*, 429 U.S. 610, 619 (1977) ("*Fortner II*"); *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505 n.2 (1969) ("*Fortner I*"). Thus, as in *Copperweld*, the Court has not had any occasion to "explore[] or analyze[] in detail the justifications for such a rule; the [presumption] has played only a relatively minor role in the Court's Sherman Act holdings." 467 U.S. at 766.[4]

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[4] Congress overturned the Court's judgment about the appropriate limits on intellectual property rights in 1988 when it enacted a statute requiring proof of actual market power to establish a patent misuse defense based on patent tying. Act of Nov. 19, 1988, Pub.

B. The Market Power Presumption Is Wholly Inconsistent With The Court's Modern Tying Jurisprudence.

If *International Salt* and *Loew's* had never been decided and the Court were confronted for the first time today with the contention that market power should be presumed when the tying product is copyrighted or patented, it is inconceivable that the Court would adopt that approach. Such a presumption is sharply out of step with the Court's explanation in more recent decisions that the role of the market power requirement in tying cases is to restrict antitrust liability to those situations in which anticompetitive forcing is likely to occur.

In *Fortner II*, 429 U.S. at 620, the Court described the critical inquiry with respect to market power as "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." See also *id.* at 620 n.13 ("'market power in the

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L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5)).

The fact that Congress considered amending the antitrust laws to overturn *International Salt* and *Loew's* but failed to do so does not indicate congressional endorsement of those decisions. "[I]n the absence of any persuasive circumstances evidencing a clear design that congressional inaction be taken as acceptance of [*International Salt* and *Loew's*], the mere silence of Congress is not a sufficient reason for refusing to reconsider the decision[s]." *Boys Mkts., Inc. v. Retail Clerks Union, Local 770*, 398 U.S. 235, 242 (1970); see also *State Oil Co.*, 522 U.S. at 19 ("[i]n the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [the Court's decisions]"); 134 Cong. Rec. S17,148 (Oct. 21, 1988) (statement of Sen. Leahy) (explaining that "the House did not have time to consider and approve th[e] measure" eliminating the presumption in antitrust tying cases).

sense of power over price must * * * exist. If the price could have been raised but the tie-in was demanded in lieu of the higher price, then — and presumably only then — would the requisite economic power exist'") (quoting K. Dam, Fortner Enterprises v. United States Steel: *"Neither a Borrower Nor a Lender Be,"* 1969 Sup. Ct. Rev. 16, 25-26).

Jefferson Parish, decided seven years later, stated that the defendant's market power must be "significant," and that the mere fact that "prices can be raised above the levels that would be charged in a competitive market" is not sufficient to establish "the kind of market power that justifies condemnation of tying." 466 U.S. at 26, 27 & n.46; see also *Grappone, Inc. v. Subaru of New England, Inc.*, 858 F.2d 792, 796 (1st Cir. 1988) (Breyer, J.) (*Jefferson Parish* "makes clear that by its requirement of 'market power' it means *significant* market power — more than the mere ability to raise price only slightly, or only on occasion, or only to a few of a seller's many customers") (emphasis in original).

Most recently, in *Eastman Kodak Co.*, the Court referred to the requirement of "appreciable economic power in the tying market," and defined "market power" as "'the ability of a single seller to raise price and restrict output.' The existence of such power ordinarily is inferred from the seller's possession of a predominant share of the market." 504 U.S. at 464 (citation omitted).

The Court has thus applied a stringent market power standard in its modern tying cases. 10 P. Areeda et al., *Antitrust Law*, ¶ 1733a, at 13 (2d ed. 2004) (the market power requirement "was not taken seriously until the late 1970s. Beginning with *Fortner II* and continuing in *Jefferson Parish* and *Kodak*, the Supreme Court has insisted that the plaintiff prove such power") (footnotes omitted). As we have explained, however (see pages 11-13, *supra*), the market power presumption was developed in earlier cases in which the

Court held that it was *unnecessary* to evaluate the seller's actual ability to affect price in the tying market.

The market power presumption is for that reason completely inconsistent with the Court's present-day market power requirement. Accord *Jefferson Parish*, 466 U.S. at 37 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment) ("[a] common misconception has been that a patent or copyright * * * suffices to demonstrate market power"; while this factor might "help to give market power to a seller, it is also possible that a seller [in this situation] will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product"); 10 Areeda et al., *supra*, ¶ 1737a, at 79 ("there is no economic basis for inferring any amount of market power from the mere fact that the defendant holds a valid patent, copyright, trademark, or other intellectual property right") (footnote omitted).[5]

The presumption also is inconsistent with the Court's analysis in cases not involving intellectual property tying. As long ago as *Northern Pacific*, this Court noted that "it is common knowledge that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight." 356 U.S. at 10 n.8; see also *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78 (1965) (noting in the context of an attempted monopolization

[5] See also S. Vermont, "The Economics of Patent Litigation," *in From Ideas to Assets: Investing Wisely in Intellectual Property* 327, 332 (B. Berman, ed. 2002) ("[A]t any given time, over about 95 percent of patents are unlicensed and over about 97 percent are generating no royalties"); W. Landes & R. Posner, *The Economic Structure of Intellectual Property Law* 320 n.52 (2003) (quoting Vermont's analysis).

case that "[i]t may be that the device [that was the subject of the patent claim] * * * does not comprise a relevant market. There may be effective substitutes for the device which do not infringe the patent").

There is no rational justification for an exception to this rule for tying cases. Nothing about tying changes the degree of power that inheres in an intellectual property right: if a patent owner lacks market power when it engages in exclusive dealing, there is no reason to conclude that market power has sprung up when it ties. "With the views underlying [*International Salt* and *Loew's*] eroded by this Court's precedent, there is not much of [those decisions] to salvage." *State Oil Co.*, 522 U.S. at 21.

C. The Federal Antitrust Enforcement Agencies Have Rejected The Market Power Presumption.

In determining whether it is appropriate to reconsider an antitrust precedent, the Court also has assessed the role played by that precedent in the federal government's enforcement activities. *Copperweld*, 467 U.S. at 777. This factor, too, weighs heavily in favor of reconsideration.

The federal antitrust enforcement agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner," even in tying cases. United States Department of Justice and the Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property* §§ 2.2 & 5.3 (1995). "Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." *Id.* § 2.2 (emphasis in original).[6]

[6] Commentators have observed that the agencies' position "effectively repudiate[s] the old approach" reflected in *International Salt* and *Loew's*. W. Tom & J. Newberg, *Antitrust and Intellectual*

The leadership of the Antitrust Division has reiterated this same point more recently in public speeches. Assistant Attorney General Pate stated that "[b]ecause patents do not necessarily confer market power, there is no presumption that tying arrangements involving patented products necessarily are illegal." R. H. Pate, "Antitrust and Intellectual Property," at 10 (Jan. 24, 2003) (citation omitted), *available at* http://www.usdoj.gov/atr/public/speeches/200701.pdf. As he explained, "without a showing that the patent actually conveys market power, antitrust concerns do not arise." *Id.* at 7.

Deputy Assistant Attorney General Delrahim further explained the Antitrust Division's view:

> While an intellectual property right does confer the right to exclude others with respect to the work or invention within the scope of that right, it does not immediately confer upon the holder the ability to seek a monopoly rent. Close substitutes in the marketplace may foreclose the new product or technology from realizing any meaningful return, let alone gaining a monopoly position. In this respect, intellectual property assets are comparable to other kinds of property, and therefore, the Department applies the same general antitrust principles when assessing the market power held by an intellectual property owner as it would if the asset at issue were any other form of tangible or intangible property.

Property: From Separate Spheres to Unified Field, 66 Antitrust L.J. 167, 173-74 (1997); see also T. Hayslett III, *1995 Antitrust Guidelines for the Licensing of Intellectual Property: Harmonizing the Commercial Use of Legal Monopolies with the Prohibitions of Antitrust Law*, 3 J. Intell. Prop. L. 375, 395 (1996) ("[t]he Guidelines retreat from the historic common law position and specifically embrace the scholars' arguments").

M. Delrahim, "Contemporary Issues at the Intersection of Intellectual Property and Antitrust," at 5-6 (Nov. 10, 2004) (citing *IP Guidelines*; footnote omitted), *available at* http://www.usdoj.gov/atr/public/speeches/206607.pdf.

D. The "Great Weight" Of Scholarly Opinion Is Sharply Critical Of The Market Power Presumption.

The Court also has pointed to the "'great weight' of scholarly criticism" as another factor relevant in determining whether to reconsider a prior decision. *State Oil Co.*, 522 U.S. at 21 (quoting *GTE Sylvania Inc.*, 433 U.S. at 47-48).

There is an overwhelming scholarly consensus that the market power presumption should be abandoned. See, *e.g.*, H. Hovenkamp, M. Janis & M. Lemley, *IP and Antitrust*, § 4.2e6 (2005 Supp.) ("a poorly grounded presumption"); 10 Areeda et al., *supra*, ¶ 1737c, at 82 ("[i]f [*International Salt*] really required power and inferred it from any patent, it erred"); R. Posner, *Antitrust Law* 197-98 (2d ed. 2001) ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."); D. Turner, *The Durability, Relevance, and Future of American Antitrust Policy*, 75 Cal. L. Rev. 797, 805 (1987) ("courts mistakenly assume the 'market power' predicate to be met where the tying product is patented or copyrighted or is distinctive from products offered by competitors"); J. Bauer, *A Simplified Approach to Tying Arrangements: A Legal and Economic Analysis*, 33 Vand. L. Rev. 283, 333 n. 179 (1980) ("The harsh mechanical treatment of tie-ins involving patented tying products is difficult to explain except perhaps on historical grounds."); see also K. Dam, *The Economic Underpinnings of Patent Law*, 23 J. Legal Stud. 247, 249-50 (1994) ("[I]t is readily apparent that the right to exclude another from [the grant of a patent] may give no significant market power, even when the patent covers a product that is sold in the market. Indeed, without the

benefit of empirical research, it is entirely plausible to conclude that in the great bulk of instances no significant market power is granted.").[7]

We are not aware of any significant authority on antitrust or intellectual property law who has defended the presumption of market power in patent and copyright tying cases in the last decade. This factor accordingly weighs in favor of review in the present case.

II. SEVERAL MEMBERS OF THIS COURT HAVE QUESTIONED THE MARKET POWER PRESUMPTION.

The substantial flaws in the foundation on which the presumption rests have not gone unnoticed by Members of this Court. To the contrary, on two separate occasions Justices

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[7] See also, *e.g.*, Comments of F. M. Scherer, *The Value of Patents and Other Legally Protected Commercial Rights*, 53 Antitrust L.J. 535, 547 (1985) (discussing how even a rebuttable presumption of market power from a patent or copyright is unwise because "[s]tatistical studies suggest that the vast majority of patents confer very little monopoly power — at least, they are not very profitable") (panel discussion). See generally R. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 Hastings L.J. 399, 437 (2003) ("eighty percent to ninety percent of patents never create any monetary return for the patent holder"); J. D. Brinson, *Proof of Economic Power in a Sherman Act Tying Arrangement Case: Should Economic Power Be Presumed When the Tying Product is Patented or Copyrighted?*, 48 La. L. Rev. 29, 66 (1987) ("A copyrighted or patented tying product should not be presumed to give its seller power over price."); R. Pearson, *Tying Arrangements and Antitrust Policy*, 60 Nw. U. L. Rev. 626, 644 (1965) ("If the teaching of *Loew's* is that the requisite market power is to be presumed from this kind of uniqueness or desirability, then there exists, indeed, a slender fulcrum to support the kind of lever we are led to believe is used in tying arrangements. This kind of desirability or uniqueness confers very little market power, or none at all.").

have questioned the *International Salt-Loew's* standard. These views provide strong support for a grant of review to reconsider the presumption in this case.

In *Jefferson Parish*, four Members of the Court pointed to the "common misconception" that a patent or copyright was sufficient to demonstrate market power, explaining that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." *Jefferson Parish*, 466 U.S. at 37-38 n.7 (O'Connor, J., joined by Burger, C.J., and Powell and Rehnquist, JJ., concurring in the judgment). They observed that the contrary view stemmed not from the Court's antitrust jurisprudence but rather from "the patent law principle of 'patent misuse.'" *Ibid.*

One year later, two Justices who were in the *Jefferson Parish* majority dissented from the denial of certiorari in a tying case involving, among other issues, "what effect should be given to the existence of a copyright or other legal monopoly in determining market power." *Data Gen. Corp.*, 473 U.S. at 909 (White, J., joined by Blackmun, J.). Labeling the court of appeals' decision "suspect on several grounds" — including its view that "the copyright on the [computer] operating system * * * creat[ed] a presumption of market power" — the Justices stated that review was appropriate because "[t]he reach of the decision in this case is potentially enormous." *Id.* at 908, 909.

III. THE DISARRAY AMONG THE LOWER COURTS WITH RESPECT TO THIS FREQUENTLY RECURRING ISSUE CONFIRMS THE NEED FOR INTERVENTION BY THIS COURT.

When a certiorari petition seeks reconsideration by this Court of one of its prior decisions, the petitioner usually cannot point to a conflict among the lower courts, because "it is th[e] Court's prerogative alone to overrule one of its precedents." *State Oil Co.*, 522 U.S. at 20. The substantial disarray

among the lower courts with respect to the continuing validity of the presumption of market power in patent and copyright tying cases confirms the extent to which *International Salt* and *Loew's* have been eroded by this Court's modern antitrust jurisprudence. Cf. *GTE Sylvania Inc.*, 433 U.S. at 48 n.14 ("many courts 'have struggled to distinguish or limit *Schwinn* in ways that are a tribute to judicial ingenuity'").

As the Federal Circuit recognized (App., *infra*, 13a), there is a conflict among the courts of appeals with respect to the issue. The Ninth and Eleventh Circuits, like the Federal Circuit in the present case, have applied the *International Salt-Loew's* presumption. *MCA Television Ltd. v. Public Interest Corp.*, 171 F.3d 1265, 1278-1279 (11th Cir. 1999); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1345 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). Three other circuits have taken the same view, albeit in dictum. See *Southern Pines Chrysler-Plymouth, Inc. v. Chrysler Corp.*, 826 F.2d 1360, 1363 (4th Cir. 1987); *Rosebrough Monument Co. v. Memorial Park Cemetery Ass'n*, 666 F.2d 1130, 1142 (8th Cir. 1981), *cert. denied*, 457 U.S. 1111 (1982); *Spartan Grain & Mill Co. v. Ayers*, 581 F.2d 419, 426 (5th Cir. 1978) (citation omitted), *cert. denied*, 444 U.S. 831 (1979).

The Sixth Circuit reached the opposite conclusion in *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986), concluding that — in light of the concurring opinion in *Jefferson Parish* — this Court's statement in *Loew's* was "overbroad and inapposite to the instant case." 806 F.2d at 676. The Seventh Circuit has suggested in dictum that proof of market power is required even as to tying products covered by intellectual property rights, noting that "rivals may create similar items for similar costs." *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985) (Easterbrook, J.), *cert. denied*, 475 U.S. 1129 (1986).

The disarray among the courts of appeals is mirrored in the district courts. A significant number of district courts

have refused to apply the market power presumption, generally concluding that this Court's decisions had been undermined by more recent precedent.[8]

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[8] See, *e.g.*, *Little Caesar Enters., Inc. v. Smith*, 34 F. Supp. 2d 459, 466 n.10 (E.D. Mich. 1998) (granting partial summary judgment on tying claim because, notwithstanding defendant's copyrights, plaintiff had not set forth any evidence that defendant had "significant market power"); *Rockbit Indus. U.S.A., Inc. v. Baker Hughes, Inc.*, 802 F. Supp. 1544, 1549 n.3 (S.D. Tex. 1991) ("recent case law has rejected the presumption of market power from the possession of patents or unique products") (citations omitted); *Allen-Myland, Inc. v. International Bus. Machs. Corp.*, 693 F. Supp. 262, 281 & n.42 (E.D. Pa. 1988) (rejecting argument that patents establish sufficient economic power as a matter of law; following *A.I. Root* and Justice O'Connor's concurrence in *Jefferson Parish*), *rev'd on other grounds*, 33 F.3d 194 (3d Cir. 1994), *cert. denied*, 513 U.S. 1066 (1994); *Telerate Sys., Inc. v. Caro*, 689 F. Supp. 221, 236 (S.D.N.Y. 1988) (holding that software developer failed to establish likelihood of success on tying claim due to inability to show market power (and other reasons), despite existence of copyright and trade secrets; expressly refusing to follow *Digidyne*); *Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1329 (D. Md. 1986) (granting summary judgment against tying claim because, notwithstanding defendants' patents, "there are readily available substitutes, available from many people"), *aff'd*, 831 F.2d 537 (4th Cir. 1987), *cert. denied*, 487 U.S. 1226 (1988); *3 P.M., Inc. v. Basic Four Corp.*, 591 F. Supp. 1350, 1359 (E.D. Mich. 1984) ("the fact that some of B/4's software is copyrighted does not establish that defendants possessed economic power"); *R & G Affiliates, Inc. v. Knoll Int'l, Inc.*, 587 F. Supp. 1395, 1404 (S.D.N.Y. 1984) ("it is not clear that the furniture that is patented actually is sufficiently distinctive to confer the required market power"); see also *Universal Bus. Computing Co. v. Comprehensive Accounting Corp.*, No. 82-C-3028, 1985 WL 1955, at *6 (N.D. Ill. June 25, 1985) (rejecting argument that copyright establishes sufficient market power as a matter of law).

Even among those courts that have applied the market power presumption, moreover, there is — as the Federal Circuit recognized (App., *infra*, 15a) — a disagreement about whether the presumption is rebuttable. The Federal Circuit stated that "[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Id.* at 16a. The Ninth Circuit placed an even more stringent burden on sellers, holding that proof of "comparable" or "functionally equivalent" substitutes — or even proof that "the defendant's prices * * * were fully competitive" — was insufficient to rebut the presumption (*Digidyne Corp.*, 734 F.2d at 1346).

On the other hand, the Eleventh Circuit appears to assume that the market power presumption is not rebuttable at all. *MCA Television Ltd.*, 171 F.3d at 1276-1279; see also *Grid Sys. Corp. v. Texas Instruments Inc.*, 771 F. Supp. 1033, 1037 n.2 (N.D. Cal. 1991); *Outlet Communications, Inc. v. King World Prods., Inc.*, 685 F. Supp. 1570, 1577 (M.D. Fla. 1988); *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 673 (D.S.C. 1977), *aff'd in part, rev'd in part*, 594 F.2d 979 (4th Cir. 1979).

It is not surprising, then, that the Justice Department and the Federal Trade Commission have pronounced the case law "unclear" with respect to the market power issue. *Antitrust Guidelines* § 2.2, at 4 n.10. This Court should grant review to resolve the confusion.

IV. THE CONTINUING VITALITY OF THE MARKET POWER PRESUMPTION IS AN ISSUE OF SUBSTANTIAL PRACTICAL IMPORTANCE.

The decisions of the lower courts just discussed demonstrate the considerable frequency with which this issue recurs. Given the increasing rates at which intellectual property

is being created, courts are likely to confront the issue in an even greater number of cases in the years ahead.[9]

In those cases that are launched by a patent infringement claim or, like this one, a declaratory judgment action regarding patent infringement or validity, the Federal Circuit will have exclusive appellate jurisdiction under 28 U.S.C. §1295(a)(1). See *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002). Because the Federal Circuit has indicated that it will look to its own precedent as to whether patent tying violates the antitrust laws, (see App., *infra*, 4a (citing *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998) (en banc in relevant part), *cert. denied*, 525 U.S. 876 (1998))), its decision in this case will control all antitrust patent tying counterclaims filed in response to patent infringement suits. Thus, this decision, if not reversed, will produce numerous applications of an erroneous legal standard.

The market power presumption also has substantial practical consequences. "[I]ntellectual property-based exports — whether copyrighted music, movies or software, or patent-protected goods such as pharmaceuticals or electronic products — have become this country's number one export. As such, their creation and protection is critical to maintaining a vibrant economy." M. Delrahim, "International Antitrust and Intellectual Property: Challenges on the Road to Convergence," at 1 (May 21, 2004), *available at* http://www.usdoj.gov/atr/public/speeches/205629.pdf.

International Salt and *Loew's* single out intellectual property for a unique, and weighty, burden. To the extent the

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[9] In 2000, for example, the United States Patent and Trademark Office issued over 175,000 patents, compared to only about 66,000 patents twenty years ago. T. Muris, "Competition and Intellectual Property Policy: The Way Ahead" (Nov. 15, 2001), *available at* http://www.ftc.gov/speeches/muris/intellectual.htm.

presumption is irrebuttable (see page 24, *supra*), intellectual property owners may be subject to treble damages liability even though, as a factual matter, they lack the market power necessary to produce the anticompetitive harm that the prohibition against tying is designed to prevent — forcing licensees to purchase an unwanted tied product.

Even if the market power presumption is rebuttable, overcoming it requires a considerable investment by the intellectual property owner, not in further creativity or innovation, but in litigation. According to the Federal Circuit, evidence of competing substitutes for the patent or patented product is not sufficient. App., *infra*, 16a (citation omitted). Rather, "[t]he presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power." *Ibid.*

In other words, to counter even the sketchiest allegation of tying, a defendant must pay for a full-blown antitrust market-definition analysis. Such an analysis, which inevitably entails collection and analysis of massive amounts of data by highly paid economic consultants, is an enormous burden to impose on intellectual property owners who wish to protect their investments in innovation.

Under the court of appeals' analysis, moreover, a defendant is given little guidance as to how to rebut the presumption successfully. Proving a negative is difficult in general, and especially difficult in the complex world of economic analysis.

Finally, the presumption allows, and even encourages, plaintiffs to file meritless lawsuits. By transferring to defendants the plaintiffs' initial burden as to a fundamental element of a tying claim, the presumption increases the chances that deficient claims will survive motions to dismiss and for summary judgment. That in turn improves the prospect of extracting settlement payments from defendants confronted

by the expense, and treble damages risk, of an antitrust trial. In effect, then, the presumption unjustifiably increases the costs of owning, disseminating and enforcing intellectual property. These increased costs ultimately could discourage firms from investing in the development of intellectual property in the first place. Given intellectual property's increasingly important role in our economy, such a disincentive would likely cause substantial long-run harm to our economy, to innovators, manufacturers and consumers alike.

Indeed, as this Court has previously recognized, the "effect" of allowing implausible inferences to require a jury trial "is often to deter procompetitive conduct" (*Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 593 (1986) (citation omitted)), because even the potential of "treble damages liability" is enough "'to inhibit management's exercise of its independent business judgment'" (*Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984) (internal quotation marks and citation omitted)). Implausible presumptions present equivalent concerns.

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In sum, there are powerful reasons for reconsideration of the market power presumption: it is sharply inconsistent with the Court's more recent approach to proof of market power in tying cases; it has been rejected by the federal antitrust agencies and heavily criticized by scholars and Members of this Court; and it singles out intellectual property for a burden that does not extend to any other type of product. This case cleanly presents the question of the presumption's continuing validity; indeed, the Federal Circuit ruled as it did because it felt bound by this Court's decisions. Because it is "th[is]Court's prerogative alone to overrule one of its own precedents" (*State Oil Co.*, 522 U.S. at 20), the Court should grant the petition to resolve this important question.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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APPENDICES

APPENDIX A

United States Court of Appeals,
Federal Circuit.

INDEPENDENT INK, INC., *Plaintiff-Appellant*,

v.

ILLINOIS TOOL WORKS, INC. AND TRIDENT, INC.,
Defendants-Appellees.

No. 04-1196.

Jan. 25, 2005.

Before CLEVENGER, DYK, and PROST, Circuit Judges.

DYK, Circuit Judge.

Independent Ink, Inc. ("Independent") appeals from the judgment of the United States District Court for the Central District of California in this patent tying antitrust action. The district court granted summary judgment on plaintiff Independent's Sherman Act section 1 claim because Independent had failed to produce any evidence of market power over the tying product. *Indep. Ink, Inc. v. Trident, Inc.*, 210 F. Supp. 2d 1155 (C.D. Cal. 2002). We hold that a rebuttable presumption of market power arises from the possession of a patent over a tying product. Because no rebuttal evidence was submitted by the patent holder, we reverse the grant of summary judgment on the Sherman Act section 1 claim and remand for further proceedings. As to Independent's Sherman Act section 2 claim, we affirm the district court's grant of summary judgment.

BACKGROUND

Defendant Trident, Inc. ("Trident") is a wholly-owned subsidiary of defendant Illinois Tool Works, Inc. ("ITW"). Trident is a manufacturer of printheads and holds a patent over its printhead technology. *See* U.S. Patent No. 5,343,226

("the '226 patent"). Printer manufacturers (the "OEMs") use Trident's printhead technology to manufacture printers. The end users of the printers are usually product manufacturers, who use the printers to place bar codes on cartons.

As disclosed by the '226 patent, ink jet devices for printing bar codes consume a large quantity of ink. The small cartridges typical in other ink jet devices are impractical for such applications. But the use of a large supply of ink poses problems for transferring the ink from the container to the printhead. Specifically, one must be able to apply pressure in one direction, forcing ink towards the printhead, without sucking the ink back when that pressure is released. As reflected in the prior art and discussed by the '226 patent, there have been essentially three methods by which this could be done. First, there have been valves that allow release of the pressure without affecting the flow of ink. However, such valves must be sensitive to back pressure while being strong enough to seal the ink, and are difficult to reliably design. Second, there have been devices that pressurize the air space above the ink reservoir. But any increase in pressure in the ink container "will continue to force ink out . . . even after the pressure is removed. . . . [P]uncturing a hole in the container in the air space above the ink . . . to relieve pressure within the container . . . makes removal of partially filled containers messy." *Id.* col. 1, II. 51-60. Third, there have been devices using a peristaltic pump. However, such devices are usually complex and expensive. The '226 patent discloses an ink jet device and supply system using a hand actuated peristaltic pump. The use of hand pumping overcomes the usual complexity and expense of such devices.

Trident also manufactures ink for use with its patented printheads. Trident's standard form licensing agreement allowing the OEMs to use its patented product requires "OEMs to purchase their ink for Trident-based systems exclusively from Trident." (Br. of Appellees at 8.) Specifically, the licensing agreement grants the right to "manufacture, use and

sell . . . ink jet printing devices supplied by Trident" only "when used in combination with ink and ink supply systems supplied by Trident." (J.A. at 275.) There is now no claim that the ink is protected by any of Trident's patents.[1] We thus have an explicit tying agreement conditioning the sale of a patented product (the printhead covered by the '226 patent (and possibly other patents as well)) on the sale of an unpatented one (the ink).

Independent is a competing manufacturer of ink. It manufactures ink usable in Trident's printheads. Independent filed suit in the United States District Court for the Central District of California on August 14, 1998, initially seeking a declaratory judgment of non-infringement and invalidity against Trident's patents. Independent subsequently amended its complaint to allege that Trident was engaged in illegal tying and monopolization in violation of sections 1 and 2 of the Sherman Act, 15 U.S.C. § 1 *et seq.* Both parties moved for summary judgment as to the section 1 claim, and Trident moved for summary judgment as to the section 2 claim. The district court granted summary judgment in favor of Trident on both claims.

The district court held that for patent tying to constitute a violation of the antitrust laws, the plaintiff must affirmatively prove market power. *Indep. Ink*, 210 F. Supp. 2d at 1162. The district court, in a footnote, dismissed several Supreme Court cases holding to the contrary as "vintage." *Id.* at 1165 n. 10. Addressing the Supreme Court's more recent decision in *Jefferson Parish Hospital District No. 2 v. Hyde*, 466 U.S. 2, 16, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984), it declined to follow the rule announced by the majority in that case that "the sale or lease of a patented item on condition that the

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[1] Although Trident initially claimed patent rights over the ink used in its printheads and sued Independent for infringement, that infringement claim was dismissed with prejudice.

buyer make all his purchases of a separate tied product from the patentee is unlawful." Instead, relying on the concurring opinion in *Jefferson Parish*, the dissent from a denial of certiorari by two members of the *Jefferson Parish* majority,[2] and academic criticisms of the presumption of market power, the district court dismissed the majority opinion of *Jefferson Parish* as dictum that should not be followed. *Indep. Ink*, 210 F. Supp. 2d at 1164-65. The district court found that Independent submitted no affirmative evidence defining the relevant market nor proving Trident's power within it, and therefore could not prevail in either antitrust claim. *Id.* at 1173-77.

The parties settled all their remaining claims, which were accordingly dismissed with prejudice, and final judgment was entered. This appeal followed. Because the complaint originally contained a claim for declaratory judgment of invalidity and non-infringement of the '226 patent, we have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

DISCUSSION

I

The first issue before us is whether Federal Circuit or Ninth Circuit law governs the legality of patent tying under the Sherman Act, an issue which may arise both in the context of affirmative claims (as here) and in the context of a patent misuse defense. We have previously held that where an affirmative antitrust claim or antitrust misuse defense is based on "procuring or enforcing a patent," the central antitrust question is a matter governed by Federal Circuit law. *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1067-68 (Fed. Cir. 1998) (en banc in relevant part). We conclude that the antitrust consequences of patent tying like-

[2] *Data Gen. Corp. v. Digidyne Corp.*, 473 U.S. 908, 908, 105 S. Ct. 3534, 87 L. Ed. 2d 657 (1985) (White, J., joined by Blackmun, J., dissenting from denial of certiorari).

wise is a question governed by our law.[3] However, as stated in *Nobelpharma*, "we will continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law," such as defining the relevant market and determining as a factual matter whether power exists within that market. *Id.* at 1068.

II

We now address the Sherman Act section 1 claim. This case first requires us to determine whether patent tying is illegal per se (or presumptively illegal) under the Sherman Act,[4] or whether the plaintiff is obliged to prove as part of its affirmative case that the patent confers market power in the relevant market for the tying product.

This case comes to us with a long history of Supreme Court consideration of the legality of tying arrangements. Earlier Supreme Court cases dealing with tying agreements were extremely hostile to them, whether the case involved intellectual property or other tying products. The first case that found tying to violate section 1 of the Sherman Act was a patent tying case. *Int'l Salt Co. v. United States*, 332 U.S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947).[5] In *Standard Oil Co.*

[3] We note that tying as a defense in patent cases is governed by statute. 35 U.S.C. § 271(d)(5) (2000).

[4] Independent expressly states in its brief that its position before this court is that Trident's contracts violate the Sherman Act. (Br. of Appellant at 9.) Therefore, we do not consider whether there are any violations of Clayton Act § 3, 15 U.S.C. § 14 (2000).

[5] Prior to this, the Court had found tying, including patent tying, to violate section 3 of the Clayton Act in an action to enjoin the enforcement of patent tying agreements. *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 42 S. Ct. 363, 66 L. Ed. 708 (1922). It had also found patent tying to be a defense in a patent infringement action. *Motion Picture Patents Co. v. Universal Film Mfg.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917).

v. United States, 337 U.S. 293, 305, 69 S. Ct. 1051, 93 L. Ed. 1371 (1949), the Court commented that "[t]ying agreements serve hardly any purpose beyond the suppression of competition." In *Northern Pacific Railway Co. v. United States*, 356 U.S. 1, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958), the Court held again that:

> Tying arrangements . . . flout the Sherman Act's policy that competition rule the marts of trade . . . . By conditioning his sale of one commodity on the purchase of another, a seller coerces the abdication of buyers' independent judgment as to the "tied" product's merits and insulates it from the competitive stresses of the open market.

Id. at 10, 78 S. Ct. 514 (quoting *Times-Picayune Publ'g Co. v. United States*, 345 U.S. 594, 605, 73 S. Ct. 872, 97 L. Ed. 1277 (1953)). The Court held that Northern Pacific's conditioning the lease of its land to shipping commodities on its railway lines violated the Sherman Act, because Northern Pacific's landholdings gave it "sufficient economic power to impose an appreciable restraint on free competition in the tied product." *Id.* at 11, 78 S. Ct. 514.

Later Supreme Court cases reflected divergent treatment, depending on whether statutory intellectual property was involved. Those cases not involving patents or copyrights refined the test, holding that tying was only unlawful if the defendant had "market power" in the market for the tying product. As articulated in *United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*"), this requirement of "market power" necessitated an inquiry into "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market." The requirement of demonstrating sufficient market power to raise prices was notably more onerous than the

Northern Pacific requirement that there be some power to "appreciably restrain free competition."[6]

The Supreme Court further explained the requirement for market power in the 1984 *Jefferson Parish* decision, which involved an agreement requiring patients of a hospital to use a particular anesthesiology firm. The Court stated that "certain tying arrangements pose an unacceptable risk of stifling competition." 466 U.S. at 9, 104 S. Ct. 1551. But the "unacceptable risk of stifling competition" arises, and consequent liability attaches, only if there is anticompetitive "forcing." As explained by the Court:

> [T]he essential characteristic of an invalid tying arrangement lies in the seller's exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms. When such "forcing" is present, competition on the merits in the market for the tied item is restrained and the Sherman Act is violated.

Id. at 12, 104 S. Ct. 1551. The requirement of proving "forcing" or "market power" in cases not involving intellectual property necessitates a definition of the market in which such power is alleged to exist and showing an "actual adverse effect on competition." *Id.* at 29-31, 104 S. Ct. 1551. The Su-

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[6] Under the *Northern Pacific* test, market power could be inferred from having "unique economic advantages" of some kind. *Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 505, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969) ("*Fortner I*"). In contrast, *Fortner II* requires the ability to actually raise prices in a relevant market. Since *Jefferson Parish* found a 30% market share inadequate, lower courts in subsequent cases have generally refrained from condemning tying arrangements where the defendant had less than a 30% market share. *See* Herbert Hovenkamp, *Federal Antitrust Policy: The Law of Competition and Its Practice* § 10.3, at 397 & n. 19 (2d ed. 1999) (collecting cases).

preme Court reaffirmed the requirement of market power in such cases in *Eastman Kodak Co. v. Image Technical Services*, 504 U.S. 451, 462, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992), where it held that tying "violates § 1 of the Sherman Act if the seller has 'appreciable economic power' in the tying product market and if the arrangement affects a substantial volume of commerce in the tied market."

The Court's treatment of tying cases when the tying product is patented or copyrighted, however, has been more consistent. In the 1947 *International Salt* case, the defendant held patents over "machines for utilization of salt products." 332 U.S. at 394, 68 S. Ct. 12. It leased these machines on the condition that the lessee purchase from the defendant "all unpatented salt and salt tablets consumed in the leased machines." *Id.* The Supreme Court held that this arrangement violated the Sherman Act, holding that "the patents confer no right to restrain use of, or trade in, unpatented salt." *Id.* at 395-96, 68 S. Ct. 12. The Court found that by tying the lease of machines to the purchase of salt, and "contracting to close this market for salt against competition, [the defendant] engaged in a restraint of trade for which its patents afford no immunity from the antitrust laws." *Id.* at 396, 68 S. Ct. 12. The Court made no inquiry of the defendant's market power, finding that "the admitted facts left no genuine issue .... [T]he tendency of the [patent tying] arrangement to accomplishment of monopoly seems obvious." *Id.*

In *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), relying on *International Salt*, the Court made clear that, where the tying product is patented or copyrighted, market power may be presumed rather than proven. *Loew's* involved the tying of less popular films to popular copyrighted films by movie distributors in their licenses to television stations. The Court stated that in tying cases not involving intellectual property the "standard of illegality is that the seller must have sufficient economic power with respect to the tying product to appreciably restrain free

competition in the market for the tied product." *Id.* at 45, 83 S. Ct. 97. However, "[t]he requisite economic power is presumed when the tying product is patented or copyrighted." *Id.* The *Loew's* Court confirmed that patent tying is a distinct doctrine when it noted defendants' argument "that their behavior is not to be judged by the principle of the patent cases . . ., but by the general principles which govern the validity of tying arrangements of nonpatented products." *Id.* at 48, 83 S. Ct. 97. The *Loew's* Court also stated that it needed not inquire into whether the distributors had market power. "[T]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the copyrighted product." *Id.* at 49, 83 S. Ct. 97.

The subsequent Supreme Court cases that have required proof of market power in tying cases not involving intellectual property have consistently reaffirmed the holdings of *International Salt* and *Loew's* that no proof of market power is necessary in patent or copyright tying cases. The *Fortner II* Court in 1977 expressly restated the presumption of market power in cases of patent tying, stating that "the statutory grant of a patent monopoly in [*International Salt*] . . . represented tying products . . . sufficiently unique to give rise to a presumption of economic power." 429 U.S. at 619, 97 S. Ct. 861. Likewise, the *Jefferson Parish* Court in 1984 stated that "if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16, 104 S. Ct. 1551.

In sum, the Supreme Court cases in this area squarely establish that patent and copyright tying, unlike other tying cases, do not require an affirmative demonstration of market power. Rather, *International Salt* and *Loew's* make clear that the necessary market power to establish a section 1 violation is presumed. The continued validity of *International Salt* and *Loew's* as binding authority, and the distinction between pat-

ent tying and other tying cases that was articulated in *Loew's*, have been consistently reaffirmed by the Court ever since.[7]

III

Defendants attempt to distinguish *International Salt* and *Loew's* on the ground that they were cases brought by the United States. Specifically, they argue that *International Salt* and *Loew's* apply only to government cases because prior to *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965), private parties could not bring antitrust tying suits. This is simply incorrect. *See, e.g., Switzer Bros., Inc. v. Locklin*, 297 F.2d 39 (7th Cir. 1961), *cert. denied*, 369 U.S. 861, 82 S. Ct. 950, 8 L. Ed. 2d 18 (1962) (private party patent tying case in 1961, four years before *Walker Process*). Moreover, we can see no persuasive reason to make such a distinction between government and private party plaintiffs. There is no indication whatsoever in either *International Salt* or *Loew's* that the Court considered it important that it was the United States bringing suit. We further note that the manifest purpose of the statute authorizing private party actions, 15 U.S.C. § 15 (2000), is to encourage the enforcement of the antitrust laws. *Zenith Radio Corp. v. Hazeltine Re-*

[7] It is noteworthy that Congress has declined to require a showing of market power for affirmative patent tying claims as opposed to patent misuse defenses based on patent tying. Proof of actual market power is required to establish a patent misuse defense based on patent tying. Act of Nov. 19, 1988, Pub.L. No. 100-703, § 201, 102 Stat. 4674, 4676 (codified at 35 U.S.C. § 271(d)(5) (2000)). The version of Public Law No. 100-703 that originally emerged from the Senate contained language also abrogating the presumption of market power in antitrust patent tying cases. *See* 134 Cong. Rec. 30,688-89 (1988). This language was removed in a House amendment and does not appear in the statute, *see* 134 Cong. Rec. 32,295 (1988), making clear that Congress was not attempting to change existing law in this respect.

search, Inc., 395 U.S. 100, 130-31, 89 S. Ct. 1562, 23 L. Ed. 2d 129 (1969). We conclude that defendants' attempt to distinguish *International Salt* and *Loew's* as involving suits brought by the United States is without merit.

IV

The defendants argue alternatively that *International Salt* and *Loew's* are no longer good law. They offer three theories in support of this contention. First, they point to *Walker Process*, where the Court stated in a patent antitrust case that it was "reluctant to extend [per se illegality] on the bare pleadings and absent examination of market effect and economic consequences." 382 U.S. at 178, 86 S. Ct. 347. But *Walker Process* was a section 2 case asserting claims of monopolization, not a section 1 claim for tying. Moreover, the gravamen of *Walker Process* was the inappropriate obtaining of the patent, *id.* at 174, 86 S. Ct. 347, not the extension of that patent beyond its terms to an unpatented article through a tying arrangement, *see Int'l Salt*, 332 U.S. at 395-96, 68 S. Ct. 12. We conclude that *Walker Process* does not articulate a rule applicable to patent tying cases.[8]

The defendants next point to Justice O'Connor's concurrence in *Jefferson Parish*, which was joined by Chief Justice Burger, Justice Powell and then-Justice (now Chief Justice) Rehnquist, stating that it is a "common misconception . . . that a patent or copyright . . . suffices to demonstrate market power." 466 U.S. at 37 n. 7, 104 S. Ct. 1551 (O'Connor, J., concurring). Defendants argue that the 1984 *Jefferson Parish* concurrence, coupled with a dissent in the following year joined by two members of the *Jefferson Parish* majority,[9]

[8] Many of this court's decisions upon which defendants rely are also *Walker Process* cases. *See, e.g., Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991).

[9] *Data Gen.*, 473 U.S at 908, 105 S. Ct. 3534 (White, J., joined by Blackmun, J., dissenting from denial of certiorari).

imply that a then-majority of the Court indicated that *International Salt* and *Loew's* were no longer good law. The district court relied on this reasoning. *Indep. Ink*, 210 F. Supp. 2d at 1164-65. It is not persuasive. Justice White's opinion in *Data General*, joined by Justice Blackmun, did not expressly contradict *International Salt*, *Loew's*, *Jefferson Parish*, or opine that a showing of market power was required in patent and copyright tying cases. Justice White noted that the court of appeals "viewed [a] copyright . . . as creating a presumption of market power, and seemingly concluded that forcing power is sufficiently established to demonstrate per se antitrust liability if some buyers find the tying product unique and desirable." *Data Gen.*, 473 U.S. at 909, 105 S. Ct. 3534. The only conclusion Justice White drew was that the case raised "several substantial questions of antitrust law and policy, including . . . what effect should be given to the existence of a copyright or other legal monopoly in determining market power." *Id.* This hardly amounts to a repudiation of the presumption of market power. More importantly, the district court's practice of "nose-counting," as one sister circuit has called it, *Felton v. Sec'y, United States Dep't of Educ.*, 739 F.2d 48, 72 n. 25 (2d Cir. 1984), is "a pastime in which we do not commonly engage." *United States v. Curcio*, 712 F.2d 1532, 1542 (2d Cir. 1983).

The defendants finally point to the numerous academic articles criticizing the Supreme Court cases relying on a presumption of market power in patent and copyright cases.[10] We recognize that the Supreme Court precedent in this area

[10] The defendants also point out that the Department of Justice and the Federal Trade Commission have resolved, as a matter of their prosecutorial discretion, not to presume that a patent or copyright confers market power. U.S. Dep't of Justice and Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* § 5.3 (1995). This of course does not affect the validity of the Supreme Court's decisions in *International Salt* and *Loew's*.

has been subject to heavy criticism. *See, e.g.*, Phillip E. Areeda, Einer Elhauge and Herbert Hovenkamp, 10 *Antitrust Law* ¶ 1737c (2d ed.2004); Hovenkamp, *Federal Antitrust Policy* § 10.3 ("[M]ost patents confer absolutely no market power on their owners . . . . The economic case for 'presuming' sufficient market power . . . simply because the tying product is patented . . . is very weak."); Richard A. Posner, *Antitrust Law* 197-98 (2d ed. 2001) ("[M]ost patents confer too little monopoly power to be a proper object of antitrust concern. Some patents confer no monopoly power at all."). Defendants point out that, based on a student note critical of the doctrine, the Sixth Circuit has been persuaded to hold that: "*Loew's* [was] overbroad and . . . we reject any absolute presumption of market power for copyright or patented product . . . such a presumption is not warranted merely by existence of a copyright or patent." *A.I. Root Co. v. Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986).[11] The defendants also point out that two Seventh Circuit decisions, *USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505 (7th Cir. 1982), and *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665 (7th Cir. 1985), in dictum have suggested that proof of market power may be required in patent and copyright tying cases.

The fundamental error in all of defendants' arguments is that they ignore the fact that it is the duty of a court of appeals to follow the precedents of the Supreme Court until the Court itself chooses to expressly overrule them. This message has been conveyed repeatedly by the Court. The Court's "decisions remain binding precedent until [it] see[s] fit to reconsider them, regardless of whether subsequent cases have raised doubts about their continuing vitality." *Hohn v. United*

[11] The Sixth Circuit stated that its decision was "based on the cogent reasoning in Note, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 Colum. L. Rev. 1140 (1985)." *A.I. Root*, 806 F.2d at 676.

States, 524 U.S. 236, 252-53, 118 S. Ct. 1969, 141 L. Ed. 2d 242 (1998). "If a precedent of th[e] Court has direct application in a case, yet appears to rest on reasons rejected in some other line of decisions, the Court of Appeals should follow the case which directly controls, leaving to th[e] Court the prerogative of overruling its own decisions." *Rodriguez de Quijas v. Shearson/American Exp., Inc.*, 490 U.S. 477, 484, 109 S. Ct. 1917, 104 L. Ed. 2d 526 (1989). Even where a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents." *State Oil Co. v. Khan*, 522 U.S. 3, 20, 118 S. Ct. 275, 139 L. Ed. 2d 199 (1997). None of the authorities that defendants present, whether it be the language of Walker Process, the concurrence in *Jefferson Parish*, or the dissent from denial of certiorari in *Data General*, constituted an express overruling of *International Salt* or *Loew's*. We conclude that the Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court's direction in this respect. The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.

V

We must therefore address the scope of the rule announced by the Supreme Court's patent and copyright tying cases. Independent submits that under *International Salt* and its progeny, patent tying is per se illegal in every case and market power is irrebuttably presumed. In this area, unfortunately, there is no Supreme Court case directly addressing the issue, and we are required to ascertain the rule from dictum. *Loew's* expressly stated that "[t]here may be rare circumstances in which the doctrine we have enunciated under § 1 of the Sherman Act prohibiting tying arrangements involving patented or copyrighted tying products is inapplicable." 371 U.S. at 49-50, 83 S. Ct. 97. *Jefferson Parish* confirmed that *International Salt* created only a presumption of market

power: "[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." 466 U.S. at 16, 104 S. Ct. 1551 (emphasis added). It would stretch the language of "fair to presume" beyond the breaking point to say that such a presumption is irrebuttable. We are obliged to follow such clearly articulated Supreme Court dicta. *Ins. Co. of the West v. United States*, 243 F.3d 1367, 1372 (Fed. Cir. 2001); *Stone Container Corp. v. United States*, 229 F.3d 1345, 1349-50 (Fed. Cir. 2000).

Other circuits have similarly interpreted the Supreme Court's patent and copyright tying cases to create a rebuttable presumption of market power. *See, e.g., Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1344 (9th Cir. 1984) (Copyright "created a presumption of economic power sufficient to render the tying arrangement illegal per se. The burden to rebut the presumption shifted to defendant."); *Susser v. Carvel Corp.*, 332 F.2d 505, 521 (2d Cir. 1964) ("[W]here the tying product is patented, the patentee should be permitted to show that in the entire factual setting . . . the patent does not create the market power requisite to illegality of the tying clause . . . . [A] patent is prima facie evidence of market control." (internal citations omitted)); *but see MCA Television Ltd. v. Pub. Interest Corp.*, 171 F.3d 1265, 1276-79 (11th Cir. 1999) (appearing to assume that presumption is not rebuttable).

Thus, a patent presumptively defines the relevant market as the nationwide market for the patented product itself, and creates a presumption of power within this market. Once the plaintiff establishes a patent tying agreement, it is the defendant's burden to rebut the presumption of market power and consequent illegality that arises from patent tying.

VI

The district court found that, even if there was a presumption of market power in patent tying cases, any presumption of market power was rebutted in this case because

> it is undisputed that consumers could place bar-coded labels on their products before other competitors manufactured bar-coding printers, and Plaintiff does not establish that the various labeling systems are not proper substitutes for Defendants' printhead system or dispute Defendants' arguments that they are. Moreover . . . at least two other competitors . . . have designed printheads that can print bar codes on kraft paper. The fact that [two competitors] have done so indicates that any barriers to entry, such as R & D and manufacturing costs, are not so great as to prevent competitors from entering the market.

Indep. Ink., 210 F. Supp. 2d at 1167. The defendants argue that the district court was correct because there is testimony here by the president of an OEM that consumers use labels as substitutes for Trident's printhead technology, (J.A. at 983), and it is undisputed that two competitors offer competing printheads.

However, "[t]he mere presence of competing substitutes for the tying product . . . is insufficient to destroy the legal, and indeed the economic, distinctiveness of the [patented] product." *Digidyne*, 734 F.2d at 1345 (quoting *Loew's*, 371 U.S. at 49, 83 S. Ct. 97). Rather, the definition of a market requires careful consideration of both the product and geographic markets. *Bhan v. NME Hosp., Inc.*, 929 F.2d 1404, 1413 (9th Cir. 1991). The presumption can only be rebutted by expert testimony or other credible economic evidence of the cross-elasticity of demand, the area of effective competition, or other evidence of lack of market power. *See Tanaka v. Univ. of So. Cal.*, 252 F.3d 1059, 1063 (9th Cir. 2001); *Forro Precision, Inc. v. Int'l Bus. Machs. Corp.*, 673 F.2d 1045, 1052 (9th Cir. 1982). On the present record there is not

sufficient evidence to rebut the presumption of market power resulting from the patent itself, or to create a genuine issue of material fact on the issue.

Accordingly, we reverse the district court's grant of summary judgment on the Sherman Act section 1 claim.[12] Because plaintiff's summary judgment motion appeared to rest entirely on a theory that the presumption of market power is irrebuttable, we remand to the district court to permit defendants an opportunity to supplement the summary judgment record with evidence that may rebut the presumption. Should the defendants on remand fail to present sufficient relevant evidence to create a genuine issue of material fact as to whether the presumption has been rebutted, partial summary judgment on liability under section 1 of the Sherman Act should be granted.[13]

VII

We turn next to the section 2 claim. The presumption of illegality in patent tying arises in section 1 cases. Neither *International Salt* nor *Loew's* dealt with section 2 of the Sherman Act. *See Int'l Salt*, 332 U.S. at 393 & n. 1, 68 S. Ct.

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[12] In the district court the defendants argued that summary judgment should also be denied because plaintiff failed to show two separate products and that the tying agreement affected a not insubstantial amount of commerce in the tied product. *Indep. Ink*, 210 F. Supp. 2d at 1162 n. 7. Despite these arguments, the district court noted that "both parties seem to agree that market power will be the dispositive element in this case." *Id.* Defendants have not renewed these arguments on appeal, and we treat them as abandoned.

[13] On remand, should the plaintiff prevail on liability, the district court should then assess damages. The district court then should also determine the scope of the tying agreement as the parties dispute whether end users as well as OEMs are bound by the tying agreement.

12; *Loew's*, 371 U.S. at 39 & n. 1, 83 S. Ct. 97. To establish a monopolization claim under section 2 of the Sherman Act, there must be monopoly power in the relevant market and the willful acquisition or maintenance of that power. *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 124 S. Ct. 872, 878-79, 157 L. Ed. 2d 823 (2004). To establish an attempted monopolization claim, plaintiff must demonstrate that the defendant had specific intent to monopolize a relevant market and a "dangerous probability of success." *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 455, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993). It follows that in section 2 cases a definition of the relevant market and consideration of the defendant's power within that market are required. *Id.* at 455-56, 113 S. Ct. 884; *Walker Process*, 382 U.S. at 177-78, 86 S. Ct. 347.

In this case, the alleged monopolization is over the tied product, the ink, not the tying product, the printhead technology. The patent tying cases do not create any presumption that market power over the tying product confers the degree of market power over the tied product necessary to establish a monopolization or attempted monopolization claim. *See Fortner II*, 429 U.S. at 619, 97 S. Ct. 861. In section 2 cases, the plaintiff bears the burden of defining the market and proving defendant's power in that market. *See Spectrum Sports*, 506 U.S. at 455-56, 113 S. Ct. 884. As the district court found, plaintiff makes only the conclusory allegation of a geographic market without supporting economic evidence. *Indep. Ink*, 210 F. Supp. 2d at 1175. Such conclusory statements are not sufficient to define a relevant market. *Morgan, Strand, Wheeler & Biggs v. Radiology, Ltd.*, 924 F.2d 1484, 1490 (9th Cir. 1991). Therefore, there is no genuine issue of material fact as to the section 2 claim and summary judgment was properly granted.

CONCLUSION

For the foregoing reasons, we affirm the district court's grant of summary judgment as to the Sherman Act section 2 claim. We reverse the district court's grant of summary judgment as to the Sherman Act section 1 claim and remand for further proceedings not inconsistent with this opinion.

AFFIRMED-IN-PART, REVERSED-IN-PART, AND REMANDED.

APPENDIX B

United States District Court,
C.D. California.

INDEPENDENT INK, INC., a California corporation,
Plaintiff,

v.

TRIDENT, INC., a Connecticut corporation;
ILLINOIS TOOL WORKS, INC.; and DOES 1 through 50,
Defendants.

No. CV98-6686 NM(CWx).

June 3, 2002.

ORDER

1) DENYING PLAINTIFF'S MOTION FOR PARTIAL SUMMARY JUDGMENT

2) GRANTING DEFENDANTS' MOTION FOR PARTIAL SUMMARY JUDGMENT

MANELLA, District Judge.

I. FACTS

Independent Ink, Inc. ("Plaintiff") is a distributor and supplier of printer ink and ink products. Trident, Inc. ("Trident") and Illinois Tool Works, Inc. ("ITW") (collectively, "Defendants") manufacture: 1) a patented piezoelectric ink jet printhead, the first of its type; 2) a patented ink container, consisting of a bottle and a valved cap, that attaches to the printhead; and 3) ink specially formulated for use in Trident's printhead system. Original equipment manufacturers ("OEMs") use Defendants' printhead system to manufacture printers that print bar codes on corrugated materials and kraft paper. These printers are then sold through a network of distributors to end users, usually large product manufacturers, who use the printers to place bar codes on their cartons.

Trident licenses its patented products to OEMs as a package. Trident's license allows OEMs to "manufacturer, use and sell equipment employing and including ink jet printing devices supplied by Trident when used in combination with ink and ink supply systems supplied by Trident . . . ." Plaintiff's Memorandum of Points & Authorities, Ex. 1 (emphasis omitted).[1] Plaintiff alleges that these licenses ("OEM agreements") require OEMs and their customers, end users of printers incorporating Trident's printhead system, to purchase their ink exclusively from Trident. Defendants concede that: 1) OEMs must purchase their ink from Trident; and 2) OEMs and end users may not re-fill Trident ink containers with *any* ink, as they are intended as single-use containers. Defendants' Supplemental Brief, March 22, 2002, at 2. Trident's internal memoranda, proffered by Plaintiff, confirm that OEMs must purchase their ink from Trident and that neither OEMs nor end users may re-fill Trident's ink cartridges. *See, e.g.*, Plaintiff's Supplemental Brief, March 28, 2002, Ex. E; Plaintiff's Memorandum of Points & Authorities, Exs. 1-2. However, Defendants contend that the OEM agreements do not prevent end users from purchasing ink and ink containers from third-party ink manufacturers, like Plaintiff. *See* O'Connor Decl., February 11, 2002, Ex. 35. Various manufacturers offer ink for use in Trident's printhead system, including Graphic Controls, Squid Ink. Renewable Resources, and ATG. *See, e.g.*, Wystma Decl., Ex. C (Admission No. 26); Brucker Depo., July 24, 2000, at 145-46; Brucker Depo., July 25, 2000, at 97; O'Connor Decl., February 11, 2002,

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[1] Plaintiff's exhibits attached to the following briefs are not properly authenticated, as they are not accompanied by sworn declarations: 1) Plaintiff's Memorandum of Points & Authorities in Support of its Motion for Summary Judgment, October 3, 2001; and 2) Plaintiff's Supplemental Brief, March 28, 2002. *See Orr v. Bank of Am.*, 285 F.3d 764, 773-74 (9th Cir. 2002). However, as Defendants do not challenge their authenticity, the court will consider them.

Exs. 5, 6, 36; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15. Although Plaintiff asserts that Trident does not warranty its printhead system for use with third-party inks, Plaintiff does not dispute "the existence of competitors such as Squid Ink, ATG, and Graphic Controls, which, among other competitors in the ink jet ink market, offer ink for use in printing systems incorporating Trident's printhead." Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15.

Trident is not the only competitor who manufactures systems for affixing bar codes to cartons. At least two other companies, Markem and Xaar, have developed printheads capable of printing bar codes on corrugated materials and kraft paper. Wystma Decl., Ex. C (Admission No. 31); Wystma Decl., Ex. F, Brucker Depo. at 120-21; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 16.[2] Product manufacturers also use labeling systems to print bar-coded labels, which are then affixed to cartons. Wystma Decl., Ex. F, Brucker Depo. at 191, 205, 207; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 21. Plaintiff does not dispute testimony that these labeling systems compete with Trident's printhead systems. Pullen Depo. at 101; Wystma Decl., Ex. H, Barnett Depo. at 119.

On August 14, 1998, Plaintiff filed an action seeking a declaratory judgment that it did not infringe upon two of Defendants' patents, and Trident subsequently filed a patent infringement action against Plaintiff.[3] Plaintiff amended its

[2] Plaintiff does not dispute that "competitors, such a Markem and Xaar, offer printers which, like the Trident printhead, are capable of printing barcodes on corrugated materials and kraft paper." Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 16.

[3] Plaintiff added ITW as a party to this action after ITW acquired Trident.

complaint to allege that Defendants orchestrated unlawful tying arrangements in violation of the Sherman Act, § 15 U.S.C. § 1 *et seq.*, and Section 16727 of the Cartwright Act, California Business & Professional Code § 16700 *et seq.* Plaintiff alleges that Defendants conditioned the sale of their patented printhead systems ("the tying product") upon OEMs' also purchasing and distributing Trident's ink ("the tied product").[4] Plaintiff alleges that these tying arrangements preclude OEMs and end users from purchasing printer ink from third parties, like Plaintiff, restraining trade, in violation of Section 1 of the Sherman Act. Fourth Amended Complaint ¶¶ 20-27. Plaintiff also alleges that Defendants monopolized, attempted to monopolize, and conspired to monopolize the market for ink used in Trident's printhead system, in violation of Section 2 of the Sherman Act. *Id.* ¶¶ 21, 26.

Both parties move for summary judgment of Plaintiff's Section 1 claim, and Defendants move for summary judgment of Plaintiff's Section 2 claim. With respect to its Section 1 claim, Plaintiff argues that Defendants necessarily have market power in the market for the tying product as a matter of law solely by virtue of the patent on their printhead system, thereby rendering Defendants' tying arrangements *per se* violations of the antitrust laws. Plaintiff contends "[a]s a matter of law, one cannot use contracts which contain patent licenses and make the patent licenses conditioned upon the sale of products which are not patented." Plaintiff's Memorandum of Points & Authorities at 14. However, Plaintiff concedes that "the mere fact of having a patent does not create market power *vis-a-vis* the products with which the patented product competes." Plaintiff's Reply Brief at 4. Plaintiff does not dispute that its sales have increased during the period Trident allegedly violated the antitrust laws. De-

[4] Plaintiff's motion does not address how Trident's ink containers relate to its tying claim. Trident has maintained throughout this litigation that the container and the ink constitute one product.

fendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 32. Thus, the issue before this court concerning Plaintiff's claim under Section 1 of the Sherman Act is narrowly focused upon whether a patent confers market power in the market for the tying product as a matter of law.

Plaintiff's motion and opposition to Defendants' motion do not discuss the products at issue, their substitutes, or the relevant markets. Plaintiff's expert witness "did not perform an antitrust analysis at all." Plaintiff's Response to Defendants' Statement of Uncontroverted Facts, December 4, 2001, at ¶ 10. Plaintiff's motion cites little authority in support of its argument and identifies no tying case in which a court granted the plaintiff summary judgment solely by virtue of the fact that the defendant held a patent on the tying product. Plaintiff's Statement of Uncontroverted Facts in support of its motion contains only one fact: "[Defendants'] OEM agreements contain a patent license on their patented printhead technology. A precondition to this license is that Trident's OEMs as well as their customers (i.e. end users) purchase all of their consumable products (ink) from [Defendants], whether or not those consumables are patented." Plaintiff's Statement of Uncontroverted Facts, October 3, 2001, at ¶ 1. Plaintiff's Statement contains only one conclusion of Law: "Patent tying contracts are a *per se* violation of the antitrust laws." *Id.* ¶ 1. Plaintiff does not argue that Defendants' tying arrangements violate the Sherman Act pursuant to the Rule of Reason.[5] Nor does Plaintiff's motion or opposition to Defendants' motion address its claims that De-

[5] Tying arrangements may be unlawful per se or pursuant to the Rule of Reason. *See County of Tuolumne v. Sonora Cmty. Hosp.*, 236 F.3d 1148, 1157 (9th Cir. 2001) (citations omitted). "[T]he inquiry mandated by the Rule of Reason is whether the challenged agreement is one that promotes competition or one that suppresses competition." *National Soc'y of Prof'l Eng'rs v. United States*, 435 U.S. 679, 691, 98 S. Ct. 1355, 55 L. Ed. 2d 637 (1978).

fendants monopolized, attempted to monopolize, and conspired to monopolize the market for ink in violation of Section 2 of the Sherman Act.[6]

With respect to the Section 1 claim, Defendants argue that Plaintiff cannot establish that Defendants had market power in the tying product market, a requisite element of a tying case. Defendants dispute Plaintiff's contention that a patent, standing alone, with no consideration of the products at issue, their substitutes, or the relevant markets, establishes market power in a tying case as a matter of law. Defendants also argue that Plaintiff cannot establish market power through any other means, as Plaintiff: 1) developed no evidence with which to define the relevant product market; 2) developed no evidence with which to define the relevant geographic market; 3) proffers no credible evidence that Defendants have market power in the relevant market; and 4) identifies no legitimate barriers to entry.

Defendants also argue that Plaintiff cannot, as a matter of law, raise a triable issue of fact that Defendants violated Section 2 of the Sherman Act with respect to either the printhead market or the ink market. Defendants argue that Plaintiff cannot maintain a Section 2 claim with respect to the market for the patented printhead system for the same reasons it cannot prevail on its Section 1 claim. Defendants argue that Plaintiff cannot establish that Defendants monopolized, attempted to monopolize, or conspired to monopolize the ink market, as Plaintiff: 1) developed no evidence with which to define the relevant product market; 2) developed no evidence with which to define the relevant geographic market; and 3) proffers no credible evidence that Defendants possess mo-

[6] The court ordered additional briefing from both parties February 1 and March 15, 2002 on whether Defendants violated Section 2 of the Sherman Act.

nopoly power in the relevant market or ever had a "dangerous probability of success" in achieving monopoly power.

II. LEGAL STANDARD

Summary judgment is appropriate when "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). Summary judgment is "properly regarded not as a disfavored procedural shortcut, but rather as an integral part of the Federal Rules as a whole, which are designed 'to secure the just, speedy and inexpensive determination of every action.'" *Celotex Corporation v. Catrett*, 477 U.S. 317, 327, 106 S. Ct. 2548, 2555, 91 L. Ed. 2d 265 (1986) (quoting Fed.R.Civ.P. 1). Determinations of credibility, however, should be left to the trier of fact. *See Hanon v. Dataproducts Corp.*, 976 F.2d 497, 507 (9th Cir. 1992). Accordingly, issues that turn on such determinations should not be resolved at the summary judgment stage. *See id. See also Palacios v. City of Oakland*, 970 F. Supp. 732, 738 (N.D.Ca.1997) ("In judging evidence at the summary judgment stage, the Court does not make credibility determinations or weigh conflicting evidence[.]")

In a trio of 1986 cases, the Supreme Court clarified the applicable standards for summary judgment. *See Celotex, supra*; *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986); *Matsushita Electric Industry Co. v. Zenith Radio Corp.*, 475 U.S. 574, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986). The moving party bears the initial burden of demonstrating the absence of a genuine issue of material fact. *See Anderson*, 477 U.S. at 256, 106 S. Ct. at 2514. The governing substantive law dictates whether a fact is material; if the fact may affect the outcome, it is material. *See id.* at 248, 106 S. Ct. at 2510. If the moving party seeks summary judgment with respect to a claim or defense

upon which it bears the burden of proof at trial, it must satisfy its burden with affirmative, admissible evidence. By contrast, when the non-moving party bears the burden of proving the claim or defense, the moving party can meet its burden by pointing out the absence of evidence submitted by the non-moving party. The moving party need not disprove the other party's case. *See Celotex*, 477 U.S. at 325, 106 S. Ct. at 2554.

If the moving party meets its initial burden, the "adverse party may not rest upon the mere allegations or denials of the adverse party's pleadings, but the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.P. 56(e). When assessing whether the non-moving party has raised a genuine issue, the court must believe the evidence and draw all justifiable inferences in the non-movant's favor. *Anderson*, 477 U.S. at 255, 106 S. Ct. at 2513 (citing *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 158-59, 90 S. Ct. 1598, 1608-09, 26 L. Ed. 2d 142 (1970)). Nonetheless, "the mere existence of a scintilla of evidence" is insufficient to create a genuine issue of material fact. *Id.* at 252, 106 S. Ct. at 2512. As the Supreme Court explained in *Matsushita*,

> [w]hen the moving party has carried its burden under Rule 56(c), its opponent must do more than simply show that there is some metaphysical doubt as to the material facts. . . . Where the record taken as a whole could not lead a rational trier of fact to find for the nonmoving party, there is no "genuine issue for trial."

Id., 475 U.S. at 586-87, 106 S. Ct. at 1356 (citations omitted).

To be admissible for purposes of summary judgment, declarations or affidavits must be based on personal knowledge, must set forth "such facts as would be admissible in evidence," and must show that the declarant or affiant is competent to testify concerning the facts at issue.

Fed.R.Civ.P. 56(e). Declarations on information and belief are insufficient to establish a factual dispute for purposes of summary judgment. *See Taylor v. List*, 880 F.2d 1040, 1045 (9th Cir. 1989).

III. PLAINTIFF'S SECTION ONE CLAIM– DEFENDANTS' TYING ARRANGEMENTS

"A tying arrangement exists when a seller refuses to sell one product, 'the tying product,' unless the buyer also purchases a second product, 'the tied product.'" Christopher R. Leslie, *Unilaterally Imposed Tying Arrangements and Antitrust's Concerted Action Requirement*, 60 OHIO ST.L.J. 1773, 1773 (1999). In order to establish that a tying arrangement violates Section 1 of the Sherman Act, a plaintiff must establish: 1) two distinct products or services; 2) a sale or agreement to sell the tying product conditioned upon the purchase of the tied product; 3) market power in the relevant market for the tying product; and 4) the tied product involves a "not insubstantial" amount of interstate commerce.[7] *Jefferson*

[7] Defendants argue that Plaintiff's motion does not adequately address several requisite elements. Plaintiff merely asserts in its reply brief that two distinct products exist in this case because one is a printhead and the other is ink for use with that technology. The issue whether two products are distinct "turns not on the functional relation between them, but rather on the character of the demand for the two items." *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 19, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984). A tying arrangement is not unlawful unless there is sufficient demand for the tied product separate from that of the tying product so as to denote two separate markets. *Id. See also Allen-Myland, Inc. v. International Bus. Machs. Corp.*, 33 F.3d 194, 211-12 (3d Cir. 1994); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 684 (4th Cir. 1992) (Luttig, J.). As Defendants note, Plaintiff also fails to address sufficiently whether Defendants' sales of printer ink, the tied product, involved a "not insubstantial" amount of interstate commerce. *See Jefferson Parish*, 466 U.S. at 8, 104 S. Ct. 1551 (citing *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 11,

Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 12-18, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984). *See also Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 464, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992); *United States v. Microsoft Corp.*, 253 F.3d 34, 85 (D.C. Cir. 2001); *County of Tuolumne v. Sonora Cmty. Hosp.*, 236 F.3d 1148, 1157 (9th Cir. 2001). The Ninth Circuit also requires that the defendant have an economic interest in the tied product. *See County of Tuolumne*, 236 F.3d at 1158. "[I]f the tying entity receives no economic benefit from the tie, then we can safely presume that it is not attempting to spread its power into the tied-product market, and we need not strike the arrangements down as an illegal tie under the antitrust laws." *Id.* (citing *Gonzalez v. St. Margaret's House Hous., Dev. Fund Corp.*, 880 F.2d 1514, 1517 (2d Cir. 1989)).

Market power is the power "to force a purchaser to do something that he would not do in a competitive market," viz., purchase a tied product that he either did not want or may have preferred to purchase elsewhere on different terms. *Eastman Kodak*, 504 U.S. at 464, 112 S. Ct. 2072 (quoting

78 S. Ct. 514, 2 L. Ed. 2d 545 (1958)). As the antitrust laws are intended to protect competition rather than individual competitors, a tying arrangement violates Section 1 of the Sherman Act only if it "affects a substantial volume of commerce in the tied market." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 461-62, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992) (*Fortner Enters., Inc. v. United States Steel Corp.*, 394 U.S. 495, 503, 89 S. Ct. 1252, 22 L. Ed. 2d 495 (1969) ("*Fortner I*")); *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489, 97 S. Ct. 690, 50 L. Ed. 2d 701 (1977). "[T]he controlling consideration is simply whether a total amount of business, substantial enough in terms of dollar-volume so as not to be merely *de minimis*, is foreclosed to competitors by the tie ...." *Datagate, Inc. v. Hewlett-Packard Co.*, 60 F.3d 1421, 1425 (9th Cir. 1995) (quoting *Fortner I*, 394 U.S. at 501, 89 S. Ct. 1252). Regardless, both parties seem to agree that market power will be the dispositive element in this case.

Jefferson Parish, 466 U.S. at 14, 104 S. Ct. 1551). Tying arrangements are not unlawful, absent market power in the market for the tying product. *See, e.g., Jefferson Parish*, 466 U.S. at 34-35, 104 S. Ct. 1551 (O'Connor, concurring) ("The Court has never been willing to say of tying arrangements, as it has of price-fixing, division of markets and other agreements subject to *per se* analysis, that they are always illegal, without proof of market power or anticompetitive effect."). Plaintiff proffers no direct evidence that Defendants have market power, such as proof that Defendants restrict their output and charge supracompetitive prices. *See Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1434 (9th Cir. 1995).

A. Defendants' Patent Alone Does Not Confer Market Power

Plaintiff argues that a patent, standing alone, with no consideration of the products at issue, their substitutes, or a definition of the relevant market, establishes market power in a tying case as a matter of law. The weight of authority is to the contrary. *See, e.g., id.*, 466 U.S. at 37 n. 7, 104 S. Ct. 1551 (O'Connor, J., concurring) ("A common misconception has been that a patent . . . suffice[s] to demonstrate market power . . . . [A] patent holder has no market power in any relevant sense if there are close substitutes for the patented product."); *Northern Pacific Ry. Co. v. United States*, 356 U.S. 1, 10 n. 8, 78 S. Ct. 514, 2 L. Ed. 2d 545 (1958) ("Of course it is common knowledge that a patent does not always confer market power over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight."); *In re Independent Service Orgs. Antitrust Litig.*, 203 F.3d 1322, 1325-26 (Fed. Cir. 2000) ("A patent alone does not demonstrate market power."); *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("Violation of the antitrust laws always requires . . . market power in a defined relevant market (which may be

broader than that defined by the patent) . . . ."); *A.I. Root Co. v. Computer Dynamics, Inc.*, 806 F.2d 673, 675 (6th Cir. 1986) ("[W]e reject any absolute presumption of market power for copyrighted or patented products . . . ."); *Will v. Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n. 4 (7th Cir. 1985) (Easterbrook, J.); *USM Corp. v. SPS Techs., Inc.*, 694 F.2d 505, 511 (7th Cir. 1982) (Posner, J.) ("[O]f course, not every patent confers market power . . . ."); *Northlake Mktg. & Supply, Inc. v. Glaverbel S.A.*, 861 F. Supp. 653, 662 (N.D. Ill. 1994) ("A common misconception has been that a patent . . . suffices to demonstrate market power."); PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737a (1996) (legal monopoly protected by a patent "is not necessarily or even typically a market monopoly.").

Courts in the Ninth Circuit also reject the idea that a patent or copyright confers market power as a matter of law. *See Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1342-44 (9th Cir. 1984) (copyright creates only a "presumption of economic power"). *See also Mozart Co. v. Mercedes-Benz of North Am., Inc.*, 833 F.2d 1342, 1346 (9th Cir. 1987) (citing *Digidyne, supra*); *Schlafly v. Public Key Partners*, No. 94-20512 SW, 1997 WL 564073, at *4 (N.D. Cal. Aug.29, 1997) ("A patent does not of itself establish a presumption of market power in the antitrust sense.") (citations omitted), *aff'd*, 155 F.3d 565 (Fed. Cir. 1998) ("Mere possession of a patent, or a family of patents, does not establish a presumption of antitrust market power."); *In re Data Gen. Corp. Antitrust Litig.*, 490 F. Supp. 1089, 1112-13 (N.D. Cal.1980) ("The Ninth Circuit has also indicated that the existence of a patent . . . does not ipso facto establish the requisite economic power.") (citing *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 512 F.2d 993, 1002 (9th Cir. 1975)).[8]

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[8] *Grid Sys. Corp. v. Texas Instruments, Inc.*, 771 F. Supp. 1033, 1037 (N.D. Cal.1991) did not hold to the contrary. That case involved the Patent Misuse Reform Act of 1988 and, in a footnote,

Plaintiff attempts to distinguish the instant case by arguing that "patent tying cases" are treated differently than "regular antitrust cases," referring, presumably, to tying cases not involving patents. *See, e.g.*, Plaintiff's Reply Brief at 4. However, Plaintiff cites no case recognizing this distinction. Moreover, courts have rejected the notion that a patent automatically confers market power to its holder in "patent tying cases." *See, e.g., Schlafly*, 1997 WL 564073, at *3-4 (Williams, J.) (no presumption of market power where defendant allegedly tied software products to public key cryptology patent licenses), aff'd, 155 F.3d 565 (Fed. Cir. 1998); *F.B. Leopold Co., Inc. v. Roberts Filter Mfg. Co., Inc.*, 882 F. Supp. 433, 454 (W.D. Pa.1995) (Ambrose, J.) (patent on porous plate, the tying product, insufficient to establish market power), *aff'd*, 119 F.3d 15 (Fed. Cir. 1997); *Chiuminatta Concrete Concepts, Inc. v. Target Products, Inc.*, No. CV 92-1523 LGB (Sx), 1992 WL 465720, at *4 (C.D. Cal. Dec. 2, 1992) (Baird, J.) (patent on certain skid plates, the tying products, insufficient to establish market power in tying claim), aff'd, 19 F.3d 41 (Fed. Cir. 1994).

The U.S. Department of Justice and Federal Trade Commission reject the notion that a presumption of market power arises from a patent in "patent tying cases." "The agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." Department

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quoted an article written by a practitioner in Des Moines, Iowa opining that "the presumption of economic power, when the tying product is a patent or copyright, survives." *Id.* at 1037 n. 2 (citing Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 196 (1989)). However, the court cited this article for the proposition that the Patent Misuse Reform Act does not amend the Sherman Act rather than as part of a holding that a patent confers market power.

of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, Section 5.3., Tying Arrangements, April 6, 1995, at *http://www.usdoj. gov/atr/public/guidelines/ ipguide.htm* (Last modified Sept. 14, 2001).

Plaintiff cites oft-quoted language from *Jefferson Parish*: "[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power." *Jefferson Parish*, 466 U.S. at 11, 104 S. Ct. 1551 (emphasis added). However, the quoted language is of limited benefit to Plaintiff, as *Jefferson Parish* was not a "patent tying case." *See* PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737c (1996) ("When none of the justices says that a patent itself indicates market power, the presumption of power noted in some dicta must rest on either precedent or administrative convenience, although neither explanation persuades."). In fact, elsewhere in its opinion, the Court in *Jefferson Parish* implicitly rejected the idea that a patent necessarily confers market power. "In sum, any inquiry into the validity of a tying arrangement must focus on the market or markets in which the two products are sold, for that is where the anticompetitive forcing has its impact." *Jefferson Parish*, 466 U.S. at 18, 104 S. Ct. 1551.[9]

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[9] In her oft-quoted concurrence, Justice O'Connor recognized that "[a] common misconception has been that a patent . . . suffice[s] to demonstrate market power . . . [because] a patent holder has no market power in any relevant sense if there are close substitutes for the patented product." She was joined by Chief Justice Burger, Justice Powell, and Justice Rehnquist. *Jefferson Parish*, 466 U.S. at 37 n. 7, 104 S. Ct. 1551 (O'Connor, J., concurring). Less than a year later, Justice White, joined by Justice Blackmun, stated that "a particular tying arrangement may have procompetitive justifications, and it is thus inappropriate to condemn such an arrangement without considerable market analysis." *Data General Corp. v. Digidyne Corp.*, 473 U.S. 908, 908, 105 S. Ct. 3534, 87 L. Ed. 2d

Moreover, the Court's decisions both before and after *Jefferson Parish* do not support Plaintiff's argument. Prior to deciding *Jefferson Parish*, the Court declined to hold that a patent establishes market power as a matter of law. *See, e.g., Northern Pacific Ry.*, 356 U.S. at 10 n. 8, 78 S. Ct. 514 ("Of course it is common knowledge that a patent does not always confer market power over a particular commodity."). After deciding *Jefferson Parish*, the Court again rejected the notion that market power may be determined in the abstract. "Legal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law. This Court has preferred to resolve antitrust claims on a case-by-case basis, focusing on the 'particular facts disclosed by the record.' [citations omitted]. In determining the existence of market power . . . this Court has examined closely the economic reality of the market at issue." *Eastman Kodak*, 504 U.S. at 466-67, 112 S. Ct. 2072 (citations omitted). Indeed, Plaintiff does not identify a single tying case in which a court has granted the plaintiff summary judgment solely by virtue of the fact that the defendant held a patent on the tying product. Plaintiff also fails to distinguish the volume of precedent and controlling authority rejecting this proposition.[10]

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657 (1985) (order denying writ of certiorari) (White, J., dissenting) (citations omitted). The fact that six of the justices who decided *Jefferson Parish* would reject the notion that a patent confers market power as a matter of law supports the court's conclusion that Plaintiff's reliance upon *Jefferson Parish* is misplaced.

[10] Plaintiff cites several vintage Supreme Court cases in support of its argument, including *United States Steel Corp. v. Fortner Enters.*, 429 U.S. 610, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*"); *White Motor Co. v. United States*, 372 U.S. 253, 83 S. Ct. 696, 9 L. Ed. 2d 738 (1963); *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962); *International Salt Co. v. United States*, 332 U.S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947). The Court's language concerning presumptions of market

Additionally, Plaintiff cites no facts that would allow this court to draw an inference of market power based upon Defendants' patent. Any presumption of market power must be based upon a discussion of the products at issue, their substitutes, and the relevant markets, which Plaintiff does not provide. *See, e.g., id.* Plaintiff provides no background on the tying product, "printhead systems," or the tied product, "ink." Plaintiff does not discuss consumer demand for Defendants' printhead system and cites no evidence it is sufficiently unique to warrant a presumption of market power. *See United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620-22, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*") ("Uniqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves.") (citations omitted). Plaintiff does not discuss whether Defendants' patent acts as a barrier to entry by precluding competitors from marketing the same product as Trident. In fact, Plaintiff admits that at least two other competitors, Markem and Xaar, have offered printheads that are capable of printing bar codes on corrugated materials and kraft paper. Wystma Decl., Ex. C (Admission No. 31); Wystma Decl., Ex. F, Brucker Depo. at 120-21; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 16.

Nor does Plaintiff discuss potential substitutes that existed before Markem and Xaar entered the market. Indeed, Plaintiff concedes that manufacturers can and have used labels to place bar codes on their products. Wystma Decl., Ex. F, Brucker Depo. at 191, 205, 207; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 21. Plaintiff

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power based upon patents arose at a time when genuine proof of power in the market for the tying product was not required. *See* PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737a (1996). However, in *Jefferson Parish*, the Court began demanding real proof of such market power. *See id.*

does not argue that these labeling systems are not suitable substitutes for Defendants' printhead system. Plaintiff does not dispute testimony that Trident's printheads compete with labeling systems. Pullen Depo. at 101; Wystma Decl., Ex. H, Barnett Depo. at 119. Plaintiff does not dispute testimony that Thomas Barnett, president of an OEM selling both labeling systems and Trident printers, had to convince his customers to use printers instead of labeling systems, and lost some of his business to competitors who sold labels. Wystma Decl., Ex. H, Barnett Depo. at 119. Plaintiff does not dispute testimony that labeling systems may even have advantages over printers in terms of quality and reliability. *Id.*

Plaintiff's only discussion of the products at issue, their substitutes, and the relevant markets is cursory, at best, and contains few, if any, citations to the factual record. In essence, Plaintiff requests this court to presume that a patent on a particular type of "widget" demonstrates market power without providing any discussion of "widgets," their substitutes, or the market in which they compete. The court cannot presume market power in the abstract. Without some discussion of the particular facts of this case, this court cannot presume that Defendants' patent prevents OEMs from purchasing other printhead systems or potential substitutes, such as labeling systems.[11]

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[11] Defendants argue that Congress likely abrogated any presumption in tying cases that a patent confers market power upon its holder. Four years after the Supreme Court decided *Jefferson Parish*, Congress passed the Patent Misuse Reform Act of 1988, which provides that a tying arrangement does not constitute patent misuse in the absence of market power. 35 U.S.C. § 271(d)(5). If, as is clear, a patent is insufficient to establish market power in tying cases when considering the "patent misuse defense," it would be anomalous for the same patent to be sufficient to establish market power in the same case for purposes of a counterclaim under the Sherman Act. *See* PHILLIP E. AREEDA, ET AL., ANTITRUST LAW ¶ 1737c (1996) ("[T]he Patent Act amendment effectively abolishes any presumption of market power for patents or patented tying products in antitrust suits as well as in patent misuse doctrine."). The court need not resolve this issue for purposes of deciding the instant motions.

Even were this court to draw an inference of market power based upon Defendants' patent, any such presumption would be inconclusive and rebuttable. *See Jefferson Parish*, 466 U.S. at 11, 104 S. Ct. 1551 ("[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to *presume* that the inability to buy the product elsewhere gives the seller market power.") (emphasis added); *United States v. Loew's, Inc.*, 371 U.S. 38, 45-46, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962) ("The requisite economic power is *presumed* when the tying product is patented or copyrighted.") (emphasis added); *Digidyne*, 734 F.2d at 1344 (any presumption of market power based upon copyright would be rebuttable). The undisputed facts in this case rebut any presumption that Defendants' patent gives them market power. It is undisputed that consumers could place bar-coded labels on their products before other competitors manufactured bar-coding printers, and Plaintiff does not establish that the various labeling systems are not proper substitutes for Defendants' printhead system or dispute Defendants' argument that they are. Moreover, while Trident has a patent on its printhead system, at least two other competitors, Markem and Xaar, have designed printheads that can print bar codes on kraft paper. The fact that Markem and Xaar have done so indicates that any barriers to entry, such as R & D and manufacturing costs, are not so great as to prevent competitors from entering the market.[12]

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[12] Plaintiff cites unauthenticated anecdotal evidence that some of Trident's customers were dissatisfied with having to buy Trident's ink. However, Trident's customers' opinions of the tying arrangements are insufficient to establish that Trident had market power.

These undisputed facts would rebut any presumption, if available, that Defendants hold market power by virtue of their patent. As Plaintiff relies upon nothing more than Defendants' patent, it cannot establish that Defendants had market power in the market for the tying product, an omission fatal to its claim that Defendants' tying arrangements are per se violations of the Sherman Act. Moreover, Plaintiff does not argue that Defendants' tying arrangements violate the Sherman Act pursuant to the Rule of Reason. Accordingly, Plaintiff's motion for summary judgment on its claim under Section 1 of the Sherman Act is **DENIED.**[13]

B. Plaintiff Does Not Show Market Power Through Defendants' Market Share

Defendants move for summary judgment on Plaintiff's Section 1 claim, arguing that Plaintiff neither proffers direct evidence that Defendants have market power nor establishes that Defendants have market power by virtue of their market share. The existence of market power may be inferred from the seller's possession of a predominant share of the market. *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2, 17, 104 S. Ct. 1551, 80 L. Ed. 2d 2 (1984); *United States v. Grinnell Corp.*, 384 U.S. 563, 571, 86 S. Ct. 1698, 16 L. Ed. 2d 778 (1966); *Times-Picayune Publishing Co. v. U.S.*, 345 U.S. 594, 611-13, 73 S. Ct. 872, 97 L. Ed. 1277 (1953). In order to demonstrate market power circumstantially, Plaintiff must: 1) define the relevant product and geographic markets; 2) show that Defendants possess a dominant share of those markets; and 3) show that there are significant barriers to entry and that existing competitors lack the capacity to increase their output in the short run. *See Rebel Oil*, 51 F.3d at 1434.

[13] Plaintiff's claims under the Cartwright Act are predicated upon the same facts as its claims under Section 1 and Section 2 of the Sherman Act. Plaintiff does not address these claims independently of its Sherman Act claims.

1. Plaintiff Fails To Define the Product Market for the Tying Product

Plaintiff proffers no evidence concerning the relevant product market, a prerequisite to establishing that Defendants have market power by virtue of their market share. *See Jefferson Parish*, 466 U.S. at 26, 104 S. Ct. at 1566-67. *See also Brown Shoe Co. v. United States*, 370 U.S. 294, 325-28, 82 S. Ct. 1502, 8 L. Ed. 2d 510 (1962); *Brokerage Concepts, Inc. v. U.S. Healthcare, Inc.*, 140 F.3d 494, 513 (3d Cir. 1998) (Becker, C.J.). "Market definition is crucial. Without a definition of the relevant market, it is impossible to determine market share." *Rebel Oil*, 51 F.3d at 1434. *See also Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177-78, 86 S. Ct. 347, 15 L. Ed. 2d 247 (1965) ("Without a definition of [the] market, there is no way to measure [Defendants'] ability to lessen or destroy competition"). Market definition is frequently dispositive in antitrust litigation. *See, e.g., AD/SAT v. Associated Press*, 181 F.3d 216, 225 (2d Cir. 1999).[14]

A product market includes the product at issue and its substitutes. In order to define a product market, a party must determine cross-elasticity of demand, or which products are reasonably interchangeable with the product at issue from the perspective of consumers. *See Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502. *See also Rothery Storage & Van Co. v. Atlas Van Lines, Inc.*, 792 F.2d 210, 218 (D.C. Cir. 1986) (Bork, J.); *Hornsby Oil Co., Inc. v. Champion Spark Plug Co., Inc.*, 714 F.2d 1384, 1393 (5th Cir. 1983). Products need not be identical to be part of the same market. *United States v. Continental Can Co.*, 378 U.S. 441, 449-50, 84 S. Ct. 1738, 12 L.

[14] Plaintiff's complaint asserts that the relevant markets are "commercial ink jet inks, patented containers for said commercial ink jet inks and patented printing systems in which said commercial ink jet inks are used." Fourth Amended Complaint ¶ 19. Plaintiff proffers no evidence or argument in support of this assertion.

Ed. 2d 953 (1964). "If consumers view the products as substitutes, the products are part of the same market." *Rebel Oil*, 51 F.3d at 1435. Whether products are substitutes for the product at issue will depend upon their prices, uses, and qualities. *United States v. E.I. du Pont de Nemours & Co.*, 351 U.S. 377, 395, 76 S. Ct. 994, 100 L. Ed. 1264 (1956). Defining a product market also entails consideration of potential competitors who may enter the market, viz., cross elasticity of supply. *See Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502. "[M]arket definition must look at all relevant sources of supply, either actual rivals or eager potential entrants to the market." *Kaplan v. Burroughs Corp.*, 611 F.2d 286, 292 (9th Cir. 1979) (citations omitted).

Plaintiff proffers no evidence concerning the relevant product market in its motion, its opposition to Defendants' motion, or its supplemental briefs, which is fatal to its Section 1 claim. Plaintiff cannot establish that Defendants have a predominant share of "the market" without defining the relevant product market. Defendants may have a large market share if the tying product market is defined as "piezoelectric ink jet printhead systems that use high-quality ink to print bar codes on kraft paper." Conversely, Defendants would have a smaller market share if the tying product market was comprised of any product that could be used to place a bar code on a retail product, such as labeling machines that print bar-coded labels, which consumers indisputably use for such a purpose. Defendants' market share would also be smaller if the tying product market were defined as "patented printing systems." Moreover, Defendants' alleged market power would be further diminished if numerous potential competitors were poised to enter the market.

Plaintiff argues that market definition is irrelevant in a "patent tying case." In Plaintiff's view, "What do cross-elasticity of demand or cross-elasticity of supply have to do

with a patent tying case?" Plaintiff's Opposition Brief at 1.[15] At oral argument, Plaintiff's counsel argued that the patent itself defines the relevant market in tying cases. However, a patent does not necessarily define a product market. *See, e.g., Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 872 (Fed. Cir. 1997) ("[V]iolation of the antitrust laws always requires . . . market power in a defined market (which may be broader than that defined by the patent) . . . .").

Plaintiff also briefly argues that the relevant product market is not the entire market for printhead systems, but is defined exclusively by Trident's patented printhead system. Plaintiff argues that Defendants have market power "in their particular type of system." Plaintiff's Opposition Brief at 3. This may be true. However, all manufacturers have a "natural monopoly" over their own brand of product. *See, e.g., Nobel Scientific Indus., Inc. v. Beckman Instruments, Inc.*, 670 F. Supp. 1313, 1323 (D. Md. 1986), *aff'd*, 831 F.2d 537 (4th Cir. 1987) ("The 'natural monopoly' of a manufacturer in his own products is not an antitrust violation."). The pertinent issue is whether Defendants have market power in a market that includes: 1) both their "particular type of system" *and* all reasonable substitutes, as judged from the perspective of the consumer; and 2) all relevant sources of supply from actual competitors and potential entrants to the market.

Plaintiff cites no evidence or authority in support of its argument that the product market includes only Trident's patented printhead system. Plaintiff does not discuss or analyze

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[15] Undertaking no analysis, Plaintiff asserts that "[b]ecause Trident held patents, no one else could make that system. Accordingly, there was zero elasticity of supply in the relevant (tying product) market during the relevant time period." Plaintiff's Supplemental Brief, March 28, 2002, at 5. However, Plaintiff's bald assertion does not account for other printheads that can print bar codes on corrugated materials and kraft paper, as well as close substitutes, such as labeling machines.

the range of competing substitutes for Defendants' printhead system, a prerequisite to market definition. Nor does Plaintiff consider potential competitors who could enter the relevant market. Plaintiff argues only that because it makes ink specifically for Defendants' printhead systems, the market –from Plaintiff's perspective – is limited exclusively to Defendants' product. However, Plaintiff's perspective is not relevant in defining the product market. *See, e.g., Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502; *Continental Can Co.*, 378 U.S. at 449-50, 84 S. Ct. 1738; *E.I. du Pont de Nemours*, 351 U.S. at 395, 76 S. Ct. 994; *Rebel Oil*, 51 F.3d at 1435; *Rothery Storage*, 792 F.2d at 218; *Hornsby Oil*, 714 F.2d at 1393; *Kaplan*, 611 F.2d at 292. The critical issue in a Section 1 tying case is whether consumers are being forced to buy the tied product by virtue of a defendant's market power in the market for the tying product. Accordingly, the relevant consideration is whether substitutes are available to consumers of Defendants' product. *See, e.g., Kaplan*, 611 F.2d at 292 ("In defining the relevant market, the court must look beyond the particular commodity produced by an alleged monopolist because the relevant product market for determining monopoly power, or the threat of monopoly control, depends upon the availability of alternative commodities for buyers."); *Columbia Metal Culvert v. Kaiser Aluminum & Chem. Corp.*, 579 F.2d 20, 30 (3d Cir. 1978) ("[I]t is not the perceptions of manufacturers but those of consumers which are most salient in the determination of market boundaries."). The mere fact that Plaintiff manufactures ink for Defendants' printhead system – the tying product – does not mean there are no substitutes or competitors in the tying product market. Whether Plaintiff's ink – the tied product – is designed for use with Defendants' printhead system is not relevant in defining the tying product market.[16]

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[16] Plaintiff's argument that the market is defined by Defendants' printhead system is more relevant to its claim that Defendants attempted to monopolize the market for ink. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 482-83, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992) ("Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines."). This argument is addressed in *Section IV.1.*

Plaintiff also attempts to define the market by citing a series of marketing materials and investment reports discussing "the market." For example, Trident's "1998 Marketing Plan" references the "impulse ink jet printhead market." O'Connor Decl., Ex. 2. A small cap investment report refers to Trident as being in the "emerging impulse ink jet market." O'Connor Decl., Ex. 3. An investment analyst's presentation to Trident's board of directors referred to the "overall ink jet market." O'Connor Decl., Ex. 4. However, for antitrust purposes, the relevant market cannot be defined by a defendant's marketing materials or from the opinions of investment analysts. "For antitrust purposes . . . the relevant market is determined by reasonable interchangeability, as evidenced by cross-elasticity of demand and supply, not by laymen's comments made in a competitive business environment." *AD/SAT v. Associated Press*, 920 F. Supp. 1287, 1297 n. 7 (S.D.N.Y. 1996), aff'd, 181 F.3d 216 (2d Cir. 1999) (dismissing "internal documents" in which Defendants' officers stated they hope to "capture" a certain market.). *See also Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 782-84 (5th Cir. 1999) (court disregarded evidence that Defendants' officers, employees, customers, and internal documents defined market in certain way, focusing instead on "market realities"); *Nobel Scientific Indus.*, 670 F. Supp. at 1318-19, *aff'd*, 831 F.2d 537 (4th Cir. 1987) ("Product markets for antitrust analysis depend on cross-elasticity and interchangeability, and so the fact that a company may refer to a 'market' does not necessarily mean that its reference will be to a market for

the purposes of the Sherman Act."). "Construction of a relevant economic market or a showing of monopoly power in that market cannot . . . be based upon lay opinion testimony." *American Key Corp. v. Cole Nat. Corp.*, 762 F.2d 1569, 1579-80 (11th Cir. 1985). *See also Colsa Corp. v. Martin Marietta Servs., Inc.*, 133 F.3d 853, 855 n. 4 (11th Cir. 1998) (court rejected testimony of two witnesses about market definition as "lay opinion testimony"); *Morgan, Strand, Wheeler & Biggs v. Radiology, Ltd.*, 924 F.2d 1484, 1490 (9th Cir. 1991) (court rejected testimony of two witnesses about market definition because there was "no evidence that those two principals were experts qualified to opine on a highly technical economic question.").

Plaintiff cannot define the market without examining the range of substitutes for Defendants' product from the perspective of OEMs and end users, the consumers of Defendants' printhead systems. Plaintiff also cannot define the market without considering potential sources of supply for these consumers, viz., whether firms currently manufacture or could begin manufacturing the same product or close substitutes, like labeling machines. Plaintiff must proffer "market data, figures or other relevant material adequately describing the nature, cost, usage, or other features of competing products" to determine the bounds of the relevant market. *Bhan v. NME Hosps., Inc.*, 669 F. Supp. 998, 1018 (E.D.Cal.1987), aff'd, 929 F.2d 1404 (9th Cir. 1991). Plaintiff's failure to address the range of substitutes that exist for Defendants' patented printhead systems prevents it from defining the relevant product market and precludes it as a matter of law from establishing market power by virtue of Defendants' market share.

2. *Plaintiff Fails To Define the Geographic Market for the Tying Product*

Plaintiff proffers no evidence concerning the relevant geographic market, also a prerequisite to calculating Defendants' market share. A geographic market is the area in which the product and its reasonably interchangeable substitutes are traded. *T. Harris Young & Assocs., Inc. v. Marquette Elecs., Inc.*, 931 F.2d 816, 823 (11th Cir. 1991). Geographic market definition is based upon the market area in which the seller and its competitors operate and consumers "can practicably turn for supplies." *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321, 357, 83 S. Ct. 1715, 10 L. Ed. 2d 915 (1963). Defining a geographic market requires an analysis of "[p]rice data and such corroborative factors as transportation costs, delivery limitations, customer convenience and preference, and the location and facilities of other producers and distributors." *T. Harris Young*, 931 F.2d at 823.

Plaintiff provides no evidence or analysis of the relevant geographic market. Plaintiff merely asserts that the geographic market for the tying product is the United States and Canada, which Defendants' dispute. However, Plaintiff must proffer some credible evidence concerning the geographic market at issue. *See, e.g., Morgan, Strand, Wheeler & Biggs*, 924 F.2d at 1490 (court rejected Plaintiff's asserted geographic market definition, as it was supported by no evidence and only lay witness testimony). Plaintiff's failure to develop any evidence concerning the relevant geographic market definition is fatal to its case.

3. *Plaintiff Fails To Show that Defendants Possess a Dominant Market Share*

Plaintiff makes no attempt to calculate Defendants' market share or to show that Defendants control a dominant share of the tying product market. Plaintiff proffers no economic evidence or quantitative data in support of its allegations. Plaintiff also concedes that it retained no experts for purposes of defining the relevant market or determining Defendants' market share. The fact that Plaintiff makes no attempt to define the market makes it impossible for Plaintiff

to prove that Defendants possess sufficient market share in the tying product to exercise market power.[17]

Plaintiff attempts to create a triable issue of fact by quoting portions of Trident's president's deposition and Trident's marketing and investment materials, which purportedly evidence Defendants' market power. Plaintiff also proffers documents suggesting that Defendants sell a certain percentage of the printheads and spare parts in existence. As stated above, however, without a definition of the relevant market, such out-of-context statements are meaningless.[18]

Plaintiff's anecdotal evidence from marketing and investment materials is unpersuasive for the same reason. Advertisements that Trident has a dominant "market position" or is a leader in the "overall ink jet market," "impulse ink jet printhead market," "emerging impulse ink jet market," "piezo-electric ink jet" market, or "ink jet bar coding" market

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[17] Although the Supreme Court has identified potential sources of market power, it has not clearly articulated a standard as to what constitutes sufficient economic power to force a tie. *See* Christopher R. Leslie, *Unilaterally Imposed Tying Arrangements and Antitrust's Concerted Action Requirement*, 60 OHIO ST. L.J. 1773, 1830-36 (1999). A persuasive argument may be made that "[t]he most appropriate test to determine whether any individual has sufficient market power to force consumers to accept a tie-in is the 'monopoly power' standard of Section Two jurisprudence." *Id.* at 1831. The Court might well agree with this proposition, as it has previously acknowledged that "the essence of illegality in tying agreements is the wielding of monopolistic leverage." *Times-Picayune Publ'g*, 345 U.S. at 611, 73 S. Ct. 872. Regardless, Plaintiff cannot establish Defendants possess market power because it does not define the relevant market.

[18] Thus, even assuming Trident had over 90% of the "piezo ink jet engine[s]" for "industrial printing," as Plaintiff contends, Plaintiff has not, in fact, established that this is the relevant market for purposes of the Sherman Act.

evidence nothing, because Plaintiff does not establish that these labels accurately describe the relevant product market for purposes of an antitrust analysis. By not defining the relevant market, Plaintiff cannot prevail as a matter of law. Moreover, non-economic, qualitative descriptions of market success are insufficient to establish that an antitrust defendant exercises market power. *See, e.g., Colsa Corp.*, 133 F.3d at 855 n. 4 ("[A] showing of monopoly power in that market cannot . . . be based upon lay opinion testimony."); *Roy B. Taylor Sales, Inc. v. Hollymatic Corp.*, 28 F.3d 1379, 1383-87 (5th Cir. 1994) ("[G]eneral descriptions of market success" indicating defendant's product was "market leader," as well as the "lead," "premiere," "flagship," and "dominant" product insufficient to establish market power because they did not establish "share of the market [defendant] controlled or the nature of the competition [defendant] faced."); *Forro Precision, Inc. v. International Bus. Machs. Corp.*, 673 F.2d 1045, 1059 (9th Cir. 1982) ("Without the benefit of expert testimony or other credible evidence to support an inference of market power, . . . any such inference would be sheer speculation."). Accordingly, Plaintiff cannot establish that Defendants possess a dominant share of the market.

4. Plaintiff Identifies no Barriers to Entry

Plaintiff does not demonstrate that the market has significant barriers to entry or that existing competitors lack the capacity to increase their output in the short run. *See Rebel Oil*, 51 F.3d at 1434. Plaintiff argues that the market has barriers to entry, a prerequisite to establishing market power through a defendant's market share. *See id.* Plaintiff cites a Trident document stating:

> "Barriers to entry of a competitor into Trident's markets are considerable. Our technology required an initial investment of approximately $20m and at least $10m of ongoing R & D and process development. This work resulted in an extensive portfolio of patents and confiden-

tial know-how. All of the impulse ink jet printheads on the market today required similar or higher investments."

O'Connor Decl., Ex. 8. Without a proper definition of the market, however, this document cannot establish that the relevant product market *in its entirety* has barriers to entry. Plaintiff's proffered evidence likely establishes only that a competitor wishing to design the same product as Defendants (*i.e.*, printers that print bar codes), as opposed to its potential substitutes (*i.e.*, labeling systems), faces significant costs. However, it is undisputed that potential barriers to entry, including Defendants' patent, did *not* prevent Markem and Xaar from developing a printhead that performs the same task as Defendants' printhead. Moreover, Plaintiff proffers no evidence that those who manufacture a comparable product or potential substitutes lack the capacity to increase their output. In short, Plaintiff cannot establish that the relevant market – however defined – has barriers to entry.

5. Conclusion

With respect to Plaintiff's claim of unlawful tying in violation of Section 1 of the Sherman Act, Plaintiff's only effort to establish Defendants' market power is by virtue of their patent. Plaintiff cannot, as a matter of law, establish Defendants' market power by virtue of their market share, as Plaintiff makes no attempt to define the product market or the geographic market. Nor does Plaintiff cite any unique element of Defendants' product that would support a finding of market power. *See, e.g., United States Steel Corp. v. Fortner Enterprises, Inc.*, 429 U.S. 610, 620-22, 97 S. Ct. 861, 51 L. Ed. 2d 80 (1977) ("*Fortner II*"). It is unlikely that such uniqueness exists in this case, as Markem and Xaar were able to develop printheads that perform the same task as Defendants' printhead.

Nor can Plaintiff create a triable issue of fact by citing a series of non-economic, qualitative marketing and investment materials which refer generally to Trident's position in "the

market." *Alcatel USA*, 166 F.3d at 782-84; *Colsa Corp.*, 133 F.3d at 855 n. 4; *Roy B. Taylor Sales*, 28 F.3d at 1383-87. Simply put, Plaintiff proffers no evidence that would establish Defendants' market power in the as yet undefined market for the tying product.

In sum, Plaintiff proffers no evidence from which a reasonable trier of fact could define the relevant product and geographic markets. Nor does Plaintiff proffer any evidence that Defendants possess market power by virtue of their market share or that the market for the tying product contains barriers to entry. Accordingly, the court **GRANTS** Defendants' motion for summary judgment on Plaintiff's claim under Section 1 of the Sherman Act.

IV. PLAINTIFF'S SECTION TWO CLAIM DEFENDANTS' ALLEGED MONOPOLIZATION OF INK

Defendants also move for summary judgment on Plaintiff's claim that Defendants monopolized, attempted to monopolize, and conspired to monopolize "the market for commercial ink jet inks" in violation of Section 2 of the Sherman Act.[19] Fourth Amended Complaint ¶ 19. "The offense of monopoly under § 2 of the Sherman Act has two elements: 1) the possession of monopoly power in the relevant market and 2) the willful acquisition or maintenance of

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[19] Plaintiff did not move for summary judgment on its Section 2 claim or proffer any evidence in support of its allegations that Defendants monopolized, attempted to monopolize, or conspired to monopolize the tying product market or the market for ink containers. Moreover, as discussed above, Plaintiff cannot establish that Defendants had "monopoly power" in the market for the tying product for purposes of Section 2 of the Sherman Act, because it cannot make the lesser showing that Defendants had "market power" in any defined market for purposes of section 1 of the Sherman Act. *See Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 481, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992).

that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 480-81, 112 S. Ct. 2072, 119 L. Ed. 2d 265 (1992) (citing *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71, 86 S. Ct. 1698, 16 L. Ed. 2d 778 (1966)). In order to establish that Defendants attempted to monopolize the ink market, Plaintiff must demonstrate that Defendants had a "dangerous probability of success." *See Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 454-60, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993).

1. Plaintiff Proffers no Evidence Defining the Relevant Product Market

Citing no authority and undertaking little analysis, Plaintiff argues that the relevant product market is defined by Defendants' patented printhead system. In other words, Plaintiff contends that Defendants monopolized, attempted to monopolize, and conspired to monopolize the market for "ink . . . which is used in Defendants' patented piezoelectric printing system, including ink which can be used to refill Defendants' patented containers." Fourth Amended Complaint ¶ 21; Wystma Decl., Ex. C. (Admission No. 58) ("The market is ink for use in conjunction with Trident's piezoelectric printhead system.").

A single brand of a product can be a relevant market for purposes of the Sherman Act. *See Eastman Kodak*, 504 U.S. at 482-83, 112 S. Ct. 2072. However, such a market definition can be determined "only after a factual inquiry into the 'commercial realities' faced by consumers." *Id.* at 482, 112 S. Ct. 2072. As discussed in Section III.B.1, product market definition requires an analysis of both cross-elasticity of demand and cross-elasticity of supply. *Brown Shoe Co. v. United States*, 370 U.S. 294, 325, 82 S. Ct. 1502, 8 L. Ed. 2d 510 (1962). The record in the instant case suggests that Plaintiff's proposed market definition was derived not from economic analysis of cross-elasticity of supply and cross-elasticity of demand, but rather from a report prepared by Plaintiff's vice president in a few hours. See Wystma Decl., Ex. B, Strong Depo. at 46-47, 112-16; Wystma Decl., Ex. J at 122; Wystma Decl., Ex. N; Plaintiff's Response to Defendants' Statement of Uncontroverted Facts, December 4, 2001, at ¶ 10. Indeed, Plaintiff concedes that its expert "did not perform an antitrust analysis at all." Plaintiff's Response to Defendants' Statement of Uncontroverted Facts, December 4, 2002, at ¶ 10.

Nevertheless, the record contains sufficient facts to determine the cross-elasticity of demand. It is undisputed that Trident's printhead system uses a specially-formulated ink. Trident's printhead system cannot use ink formulated for other printers, and other printers cannot use ink that is specially formulated for Trident's system. Accordingly, the relevant product market from the consumer's perspective likely contains only ink that is specially formulated for Trident printhead systems. *See Eastman Kodak*, 504 U.S. at 482-83, 112 S. Ct. 2072 ("Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines.").

However, "defining a market on the basis of demand considerations alone is erroneous. A reasonable market definition must also be based upon 'supply elasticity.'" *Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, 51 F.3d 1421, 1436 (9th Cir. 1995) (citations omitted). "If the producers of product X can readily shift their production facilities to produce product Y, then the sales of both should be included in the relevant market." *Id.* In the instant case, Plaintiff proffers no evidence, analysis, or discussion of Trident's actual competitors, or the market's potential entrants. Citing no authority, Plaintiff contends that cross-elasticity of supply is not relevant in this case, and that the Ninth Circuit's holding to the contrary

in *Rebel Oil* applies only to predatory pricing cases. *See* Plaintiff's Supplemental Brief, March 28, 2002, at 4-5. However, a plaintiff must define the product market in a monopolization case predicated upon a defendant's market share, requiring an analysis of cross-elasticity of supply. *See, e.g., Brown Shoe*, 370 U.S. at 325, 82 S. Ct. 1502.

The record reflects that there are numerous actual and potential suppliers of ink for Trident's system. Various ink manufacturers have offered ink for use in Trident's printhead system, including Plaintiff, Graphic Controls, Squid Ink, Renewable Resources, and ATG. *See, e.g.*, Wystma Decl., Ex. C (Admission No. 26); Brucker Depo., July 24, 2000, at 145-46; Brucker Depo., July 25, 2000, at 97; O'Connor Decl., February 11, 2002, Exs. 5, 6, 36; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15. Plaintiff also concedes that ink manufacturers could convert their facilities to manufacture ink for Trident's system. *See* Brucker Depo., July 24, 2000, at 146; Brucker Depo., July 25, 2000, at 107-08. By not addressing the cross-elasticity of supply, Plaintiff cannot, as a matter of law, define the relevant product market, an omission fatal to its Section 2 claims for monopolization and attempted monopolization.[20]

2. Plaintiff Proffers no Evidence Defining the Relevant Geographic Market

Plaintiff's failure to proffer evidence or analysis concerning the relevant geographic market is also fatal to its Section 2 claim. As discussed above, geographic market for antitrust purposes is the market area in which the seller and its competitors operate and consumers "can practicably turn for supplies." *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321, 357, 83 S. Ct. 1715, 10 L. Ed. 2d 915 (1963). Geographic market definition requires analyzing, *inter alia*, "[p]rice data and such corroborative factors as transportation costs, delivery limitations, customer convenience and preference, and the location and facilities of other producers and distributors." *T. Harris Young & Assocs., Inc. v. Marquette Elecs., Inc.*, 931 F.2d 816, 823 (11th Cir. 1991).

[20] As Trident points out, end users are not bound by the tying arrangements between Trident and the OEMS. *See* Defendants' Supplemental Brief, March 22, 2002.

Plaintiff does not analyze or discuss the relevant geographic market for the ink at issue, and the record contains no evidence from which the geographic market could be defined. Nor is the geographic market in this case clearly defined as the United States and Canada, as Plaintiff contends and Defendants dispute. Market definition cannot rely entirely upon bald assertions or lay opinion, and Plaintiff must proffer some credible evidence concerning the geographic market at issue. *See, e.g., Morgan, Strand, Wheeler & Biggs v. Radiology, Ltd.*, 924 F.2d 1484, 1490 (9th Cir. 1991) (court rejected Plaintiff's asserted geographic market definition, as it was supported by no evidence and only lay witness testimony). By providing no evidence or analysis of the relevant geographic market definition, Plaintiff provides no basis for denying Defendants' motion for summary judgment of its claims under Section 2 of the Sherman Act.[21]

3. Plaintiff Does Not Establish that Defendants Possessed Monopoly Power

In the absence of evidence from which a reasonable trier of fact could define the market, Plaintiff cannot establish that Defendants possessed monopoly power through their market share. In order to establish monopolization by virtue of Defendants' market share, Plaintiff must show that Defendants' market share effectively confers monopoly power, viz., the

[21] Claims for attempted monopolization also require that the plaintiff define the product and geographic markets. *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 459-60, 113 S. Ct. 884, 122 L. Ed. 2d 247 (1993).

power to raise prices and restrict output. *See Eastman Kodak*, 504 U.S. at 464, 112 S. Ct. 2072. Although courts have not defined an exact percentage of market share that necessarily confers monopoly power, Judge Learned Hand recognized that "[90% market share] is enough to constitute a monopoly; it is doubtful whether sixty or sixty-four percentage would be enough; and certainly thirty-three percent is not." *United States v. Aluminum Co. of Am.*, 148 F.2d 416, 424 (2d Cir. 1945).

Plaintiff proffers no relevant evidence that Defendants' possessed monopoly power in any defined market. Plaintiff, who concedes it did not retain expert witnesses to analyze the markets or determine Defendants' market share, attempts to prove that Defendants possessed monopoly power by citing to a series of statements contained in Trident's marketing materials, strategic business plans, and investment reports. *See* O'Connor Decl., February 11, 2002, Ex. 8 ("Presentation to the Board of Directors" by securities analyst), Ex. 9 (securities analyst's opinion whether to invest in Trident), Ex. 10 (Trident's "Strategic Business Plan"), Ex. 11 ("Trident International 1998 Marketing Plan"), Ex. 12 ("Institutional Marketing Materials" prepared by Prudential Securities for use in Trident's initial public offering), Ex. 13 (Trident's prospectus, provided to potential investors), Ex. 14 ("Monthly Management Report" containing no quantitative data), Ex. 15 (internal memo discussing cost of designing printheads), Ex. 16 (securities analyst's opinion whether to invest in Trident), Ex. 17 (Prudential Securities' opinion whether to invest in Trident), Ex. 18 (presentation to Trident's board of directors). However, as discussed in Section III.B.3, Plaintiff cannot rely upon qualitative promotional materials, in lieu of economic analysis or quantitative evidence, to establish that Defendants possessed monopoly power. *Forro Precision, Inc. v. International Bus. Machs. Corp.*, 673 F.2d 1045, 1059 (9th Cir. 1982) ("Without the benefit of expert testimony or other credible evidence to support an inference of market

power, . . . any such inference would be sheer speculation."). *See also Colsa Corp. v. Martin Marietta Servs., Inc.*, 133 F.3d 853, 855 n. 4 (11th Cir. 1998) ("[A] showing of monopoly power in that market cannot . . . be based upon lay opinion testimony."); *Roy B. Taylor Sales, Inc. v. Hollymatic Corp.*, 28 F.3d 1379, 1383-87 (5th Cir. 1994) ("[G]eneral descriptions of market success" indicating defendant's product was "market leader," as well as the "lead," "premiere," "flagship," and "dominant" product insufficient to establish market power because they did not establish "share of the market [defendant] controlled or the nature of the competition [defendant] faced.").

Moreover, in the absence of a defined market, qualitative or quantitative estimates of market share are meaningless. Thus, a securities analyst's representation that "Trident is the leader in piezo-electric ink jet" or that "[Trident] derives [a] substantial portion of its revenues from sale of consumables" reveals nothing about market share. *See e.g., id.*, Ex. 8. Nor do documents purportedly showing that Trident sold approximately 80% of high-resolution ink between 2000 and 2001 assist in establishing Defendants' market share. *See id.*, Exs. 5-6. Although this percentage may represent Trident's ink sales, this figure does not accurately reflect Trident's *market share*, as it does not account for cross-elasticity of supply. As Plaintiff concedes, ink manufacturers could convert their facilities to manufacture high-resolution ink, undermining its argument that Trident acquired monopoly power or had a "dangerous probability of success" in doing so. *See* Brucker Depo., July 24, 2000, at 146; Brucker Depo., July 25, 2000, at 107-08. Indeed, various manufacturers offer ink for use in Trident's printhead system, including Plaintiff, Graphic Controls, Squid Ink, Renewable Resources, and ATG. *See, e.g.*, Wystma Decl., Ex. C (Admission No. 26); Brucker Depo., July 24, 2000, at 145-46; Brucker Depo., July 25, 2000, at 97; O'Connor Decl., February 11, 2002, Exs. 5,

6, 36; Defendants' Statement of Uncontroverted Facts, November 13, 2001, at ¶ 15.[22]

In short, Plaintiff proffers no evidence of Trident's market share in any defined market. Plaintiff presents no evidence that Defendants had either "monopoly power" or a "dangerous probability of success" of monopolizing any such market by virtue of their market position. Nor does Plaintiff proffer any evidence of a conspiracy to monopolize any defined market.[23]

V. CONCLUSION

Based upon the foregoing, Plaintiff's motion for summary judgment of its second claim for violations of Section 1 of the Sherman Act is **DENIED**. Defendants' motion for summary judgment of Plaintiff's second and third claims for violations of Section 1 and Section 2 of the Sherman Act, respectively, is **GRANTED**.

IT IS SO ORDERED

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[22] Plaintiff complains that Trident does not warranty its printhead system for use with third-party inks. However, merely limiting or voiding a product's warranty based upon consumer use of third-party consumables does not violate the antitrust laws. *See, e.g., Marts v. Xerox, Inc.*, 77 F.3d 1109, 1112 (8th Cir. 1996) (Xerox's policy of conditioning its photocopiers' service warranties upon consumers using Xerox cartridges did not violate antitrust laws).

[23] Plaintiff argues that Defendants' tying arrangements with the OEMs constitute a barrier to entry. The court need not address potential barriers to entry facing a competitor who wishes to sell ink for use in conjunction with Trident's printhead system (*i.e.*, Defendants' tying arrangements, Defendants' alleged misrepresentations that third-party inks corrode Trident's printheads, or the fact that Trident's printheads use single-use ink containers), because Plaintiff's failure to define either the product market or the geographic market is fatal to its case.

APPENDIX C

United States District Court,
C.D. California.

INDEPENDENT INK, INC., a California corporation,
Plaintiff,

v.

TRIDENT, INC., a Connecticut corporation;
ILLINOIS TOOL WORKS, INC.; and DOES 1 THROUGH 50,
Defendants.

No. SACV03-899-CJC (CWx).

December 22, 2003.

JUDGMENT

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

(1) Judgment in favor of defendants and against plaintiff is hereby entered based upon the Court's October 2, 2002 Order granting defendants' motion for summary judgment on the State and Federal Antitrust Claims alleged in the Second and Third Claims of the Fourth Amended Complaint ("Antitrust Claims") in United States District Court for the Central District of California, Civil No. SACV 03-0899 CJC/CWx (formerly Civil No. 98-6686-NM/CWx) (the "Action").

(2) All remaining claims and counterclaims of the Parties other than the Antitrust Claims ("Remaining Claims") are dismissed with prejudice.

DATED: 12/22/03

/s/ CORMAC J. CARNEY
HONORABLE CORMAC J. CARNEY
UNITED STATES DISTRICT COURT
JUDGE